

### Strengthening participation through decentralisation: findings on local economic development in Kyrgyzstan

Grävingholt, Jörn; Doerr, Bettina; Meissner, Kathrin; Pletziger, Stefan; Rümker, Julia von; Weikert, Jochen

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# Strengthening Participation through Decentralisation

## German Development Institute (DIE)

The German Development Institute (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development cooperation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of cooperation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European university graduates for a career in the field of development policy.

Dr. Jörn Grävingholt, political scientist, German Development Institute (DIE)

E-Mail: joern.graevingholt@die-gdi.de

Bettina Doerr, Public Policy and Management (MA), KfW development bank

E-Mail: bettina.doerr@kfw.de

Kathrin Meißner, sociologist, Friedrich-Ebert-Stiftung (FES)

E-Mail: kathrin.meissner@web.de

Stefan Pletziger, economist, German Technical Cooperation (GTZ)

E-Mail: stefan.pletziger@gmx.de

Julia von Rümker, Latin American Studies, Centrum für Internationale Migration und Entwicklung (CIM)

E-Mail: julia.ruemker-von@gtz.de

Jochen Weikert, sociologist, InWEnt Capacity Building International

E-Mail: jochen.weikert@inwent.org

## Strengthening participation through decentralisation

Findings on local economic development in Kyrgyzstan

*Jörn Grävingholt*

*Bettina Doerr*

*Kathrin Meissner*

*Stefan Pletziger*



*Julia von Rümker*

*Jochen Weikert*

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© Deutsches Institut für Entwicklungspolitik gGmbH  
Tulpenfeld 4, 53113 Bonn  
 +49 (0)228 94927-0  
 +49 (0)228 94927-130  
E-Mail: [die@die-gdi.de](mailto:die@die-gdi.de)  
<http://www.die-gdi.de>

## Preface

This study is the result of a research project carried out at the German Development Institute (DIE) from 2003 to 2004 as part of the DIE Post-Graduate Training Course. Field research was conducted from February to April 2004. The report was written jointly by all members of the research team.

The project was carried out in close cooperation with the International Institute of Strategic Studies under the President of the Kyrgyz Republic (IISS). Its director, Valentin Bogatyrev, supported the project from its early stages. Gulasel Abylova, senior researcher, provided invaluable assistance for the design of the project and the success of our field studies. Her commitment to our common cause was a constant source of motivation, and her hospitality opened the richness of Kyrgyzstan's culture for our Westerners' eyes.

We gratefully acknowledge the generous support received from many other colleagues at IISS as well as from officials and experts at governmental and non-governmental institutions, businesspeople, civil society activists and other interlocutors. They all shared their valuable time and knowledge with us. Of particular use were the comments offered by participants at two workshops organised in February and April 2004, respectively, at the IISS in Bishkek, where the research design and some preliminary results were discussed. Their constructive criticism as well as their support for the project were crucial for us in defining the direction of our research.

We are especially grateful to the many people of Nookan *raion*, Jalalabat *oblast*, and Issyk-Ata *raion*, Chui *oblast*, who helped to sharpen our view for the local perspective on decentralisation. Their enthusiasm gives reason to hope that "more power to the locales" is more than just an academic phrase.

In Bonn, our colleagues at the DIE offered useful comments and criticism at presentations given in February and May 2004. Special thanks are due to Stephan Klingebiel, who followed the progress of the project from its very outset, as well as to Kathrin Berensmann, Jörg Faust and Imme Scholz.

In March 2005, when all major work for this study had already been completed, a popular uprising, triggered by an unfair parliamentary election and known as the “Tulip Revolution,” forced Kyrgyzstan’s president Askar Akayev out of office. Kurmanbek Bakiyev, a former prime minister turned chief oppositionist, took over as acting president and was confirmed in this office in a relatively fair presidential election less than four months later. Akayev’s ouster stimulated expectations that Kyrgyzstan’s political system might reverse its accelerating path towards undemocratic rule and that democracy might receive a second chance. More recent news indicates that less may have changed than one would have wished. The tensions between the north and the south of the country re-emerged as clearly as ever during the spring 2005 events and have since then continued to play an important role in politics. The new leadership has invested considerable efforts in re-establishing a strong grip over the country’s public administration and security forces. No major changes have been announced with respect to the vertical structure of state administration and the introduction of a more effective system of local self-government— with one notable exception: In August 2005, President Bakiev told a meeting of government officials that by 2007 the *oblast* level of state administration would be eliminated. This decision puts an end to a discussion that had been going on in Kyrgyzstan for several years and that some experts had regarded as crucial if decentralisation was to make progress. As this report shows, however, while eliminating the *oblasti* may be a reasonable decision, it is by no means a panacea for Kyrgyzstan’s difficult decentralisation process. Thus, despite the recent political events in Kyrgyzstan, the findings reported in this study are still relevant for policy-makers and foreign donors concerned with decentralisation in the Kyrgyz Republic.

Bonn, April 2006



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## Abbreviations

BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung / German Ministry for Economic Co-operation and Development
CDF	Comprehensive Development Framework
CIA	Central Intelligence Agency
CIS	Commonwealth of Independent States
CSU	Christlich-Soziale Union in Bayern / Christian-Social Union in Bavaria
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
GDP	Gross domestic product
GNP	Gross national product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit / German Technical Cooperation
IISS	International Institute of Strategic Studies under the President of the Kyrgyz Republic
IMF	International Monetary Fund
LDC	Least developed country
LED	Local economic development
LSG	Local self-government
NGO(s)	Non-governmental organisation(s)
OECD/DAC	Organisation for Economic Co-operation and Development/Development Assistance Committee
PRSP	Poverty Reduction Strategy Paper
SLSA	Sustainable Livelihoods in Southern Africa
SME	Small and medium-sized enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

USSR	Union of Soviet Socialist Republics (Soviet Union)
VAT	Value-added tax
VIP	Village Investment Project
WTO	World Trade Organization

## Glossary

<i>aiyl okmotu</i>	a) Villages or loose settlements subsumed under one jurisdiction b) Administration of such a jurisdiction
<i>Akim</i>	Head of administration at raion level
<i>Kenesh</i>	Council at any of three levels of local administration (Kyrgyz)
<i>Kurultai</i>	Popular assembly to discuss issues concerning the population, a kurultai can take place at different levels of administration
<i>oblast, -i</i>	Region(s)
<i>raion, -y</i>	District(s)
<i>Soviet</i>	Council (Russian)





## Summary

The Kyrgyz Republic (Kyrgyzstan) provides a good example for a study of the problems and opportunities often encountered in decentralisation. For more than ten years, decentralisation and local government reform have been important elements of Kyrgyzstan's efforts to improve state governance. In the newly independent states of the former Soviet Union, such as the Kyrgyz Republic, decentralisation is closely linked to reforms of the overall government and administrative system, since the old central apparatus crumbled over a decade ago as a consequence of the demise of the Soviet Union. Several international donor agencies have established programmes to support the Kyrgyz decentralisation process. Nonetheless, local governments appear to be very limited in their ability to meet the high expectations associated with decentralisation and the introduction of local self-government.

While there is wide-spread agreement among experts about the diagnosis as such, so far little research has been done on the exact reasons for this situation and their effects on the Kyrgyz Republic's development potential. To address this question, this study, based on empirical research carried out from February to April 2004, analyses one particular aspect of decentralisation in the Kyrgyz Republic, namely its impact on popular participation in the design and implementation of local economic development policies. Proceeding from this analysis, the study derives conclusions and recommendations for the Kyrgyz government and other official bodies, local NGOs and international donors.

### *Decentralisation, local economic development and participation*

The study rests on three normative assumptions derived from theoretical considerations:

1. Ideally, decentralisation increases opportunities for, and eventually leads to more, popular participation in local political decision-making.
2. Effective decentralisation enables local governments to devise public policies in the area of local economic development that are in line with both local circumstances and needs.

3. Broader participation that involves large parts of the population has a positive impact on the design and implementation of local economic development policies

Decentralisation reforms aim at enhancing the efficiency and effectiveness of local administrations in public service provision by bringing decision-making processes and responsibilities as close to the people as possible. Decentralisation can generally be understood as “[...] the process by which authority, responsibility, power, resources and accountability are transferred from the central levels of government to sub-national levels [...] Conceptually, decentralisation relates to the role of, and the relationship between, central and sub-national institutions, whether they are public, private or civic.” The sub-national entities provide a number of basic public services and exercise basic administrative functions. One of the main pillars of decentralisation is local self-government. According to the European Charter of Local Self-Government, “local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population. This right shall be exercised by [democratically elected representative bodies] entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their power.” Subsidiarity, an underlying principle of decentralisation, implies that tasks should only be performed by higher-level authorities if lower levels of government are unable to do so properly.

It has become customary to distinguish four categories of decentralisation, namely political, administrative, fiscal, and market decentralisation. Since decentralisation efforts are strongly linked to a country’s size, population, history, political culture, geographic and ethnic diversity, the categories may appear in different forms and combinations within countries, and even within sectors. In Kyrgyzstan, only the first three categories play an important role. A balanced interrelationship between the political, administrative and fiscal dimensions is a crucial prerequisite for successful decentralisation.

Successful decentralisation mainly aims at four closely interrelated effects: enhanced citizen participation and representation of different interest groups at the local level; more efficient and effective provision of public services to the local population; clear-cut accountability of local authori-

ties matched by corresponding competences and resources and leading to a more transparent public administration; and mobilisation of local development potential through increased local responsibility.

However, numerous risks can jeopardise the positive effects intended with the promotion of decentralisation. Participation may be jeopardised when clientelist structures, local elites or corrupt practices hinder equal participation by all stakeholders. Ethnic divisions and even autonomy movements can be perpetuated by decentralisation efforts if the needs of minorities are not equally represented. Service provision at the local level can even become more inefficient if administration staff at the local level is poorly qualified or spending by local authorities is not restrained. Different costs of service provision despite similar tax revenue bases can result in unequal development opportunities for regions or individual groups of people within regions. Lack of fiscal discipline at sub-national levels of government can threaten macro-economic stability.

If decentralisation is to achieve beneficial impacts, it requires

- Effective state capacity to co-ordinate between different levels of government, regulate local government action and oversee local authorities so that all groups of citizens benefit from political reform
- Empowered, committed and competent local governments
- Engaged, informed and organised citizens and civil societies to collect and articulate the views of the community, exert effective control over administration and political decision-makers through formalised participation mechanisms and avoid risks such as decentralisation of corruption and increased local clientelism

One important area, or policy field, in which decentralised governance is supposed to make itself felt is local economic development. Local economic development is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and generation of employment. Private enterprises generally depend on favourable local business conditions to achieve prosperity. Local governments have, therefore, the essential role to create a favourable environment for business development and job creation.

Local governments and communities basically have to decide what programs and projects they want to adopt to achieve their local economic

development visions, goals and objectives. The options available vary and may be as relatively simple as providing a variety of services for local businesses or as complex as attracting foreign direct investment. They include encouraging new enterprises by providing advice, information and resources such as micro-financing schemes or the establishment of business networks; investment in local technical infrastructure (hard infrastructure); establishment of facilities and institutions designed to improve the social and commercial environment for businesses (soft infrastructure); or support for sector and business cluster development.

Successful decentralisation requires some degree of local citizen participation as one of its preconditions. At the same time, however, the process of decentralisation is also supposed to create new and sustainable opportunities for more such participation. The relationship between decentralisation and participation is a mutually reinforcing one.

Participatory development denotes a process in which people are actively and significantly involved in all decisions affecting their lives. Participatory mechanisms vary along a continuum: from more far-reaching citizen or stakeholder influence on and control over decisions to more conventional conceptions under which government agencies essentially retain decision-making power and control with respect to key functions. Participation can take several forms. Information provided to citizens by government agencies is the weakest but most basic form of participation. In consultation, citizens' views are sought on specific issues defined by government bodies. Citizens then provide feedback to government and formulate their own interests. In a co-operative process, these interests are not only heard but also taken into account by decision-makers. Active participation, finally, is based on partnership: citizens actively engage in the policy-making process. They propose policy options and shape the policy dialogue.

Participation can significantly enhance the quality of public management and public service delivery. Regular elections and participatory practices enhance the compliance of political office holders with the needs of the electorate and strengthen the latter's acceptance of political authority. However, participation in public sector management is also faced with constraints. The positive and negative impacts of participation depend on who participates in what procedures or institutions. Participatory forums can be misused for an ex post legitimisation of existing power structures.

Furthermore, the provision of participatory mechanisms depends on the will and determination of governments and the ruling elite. Participation therefore must be institutionalised. Ad hoc, issue-driven participation, by contrast, may enable specific lobby groups to push their own interests at the expense of the larger community.

As a consequence, one primary focus of participation is empowerment: disadvantaged groups such as the poor, women, youth, ethnic or religious minority groups find it difficult to have their interests represented in decision-making. Participation can give these groups a voice. But participation also goes beyond empowerment: it is supposed to include all stakeholders in the policy process. Politicians, on the one hand, can reduce information costs if citizens are able to directly bring their needs to bear in the process of policy formulation. On the other hand, participation enables citizens to develop their own initiatives. Existing local potential can in this way be used to contribute to more innovative and responsive policy-making.

Local economic development can be said to represent a partnership between local government, businesses and community interests. One crucial step in establishing channels of co-operation between the three sectors is identification of stakeholders who should participate in local economic development strategy formulation and implementation. Stakeholders include grassroots beneficiaries as well as decision-makers at all levels of government that are concerned with planning and decision-making, executing and evaluating particular policies or projects in a direct or indirect way.

However, the outcome of participatory approaches to local economic development depends very much on the commitment and political will of the various stakeholders to act in the interest of public welfare. Although local economic development policy outcomes primarily concern the private sector, partial interests, power relations and competing concepts are in play here just as much as they are in any other policy field.

### *Decentralisation in the Kyrgyz Republic*

After the breakdown of the Soviet Union, Kyrgyzstan was among the first countries to take steps towards building a democratic society and implementing public administration reform. Having inherited a centralised political and economic system from the socialist era, decentralisation ranked

high on the agenda from the very beginning of the new sovereign state. Nonetheless, despite repeated efforts to strengthen decentralisation and to bring power to the lower levels of the administrative system, there have remained numerous obstacles to decentralisation and its objectives. Many of the preconditions of decentralisation are not adequately given. The substantive political decentralisation that has already been carried out has not gone hand in hand with real administrative and, most importantly, fiscal decentralisation. Lack of regulations and clear functional distinctions between the different administrative levels constrains local governments' room for manoeuvre. This immobilisation of local self-government bodies is further deepened by a lack of financial autonomy and a lack of capable human resources. Clientelist structures as well as hierarchy-driven mindsets of citizens and representatives that can be ascribed to the Soviet legacy add to a generally somewhat gloomy picture of decentralisation and local self-government in Kyrgyzstan.

Structural legacies from Soviet times can be observed in the formal political structure of many successor states: the terms for and demarcations of administrative units at the sub-national level (*oblasti*, *raiony*, *oblast*-subordinate cities, *raion*-subordinate towns) have been inherited by most post-soviet countries. In the Kyrgyz Republic, an additional layer of *aiyl okmotu* was introduced in 1996. The regional division of the country was also restructured after independence, with the creation of more *oblasti* than the country had before.

In the highly centralised Soviet system the competencies of bodies at different layers were extremely limited. In the independent Kyrgyz state, more authority was given to the different levels. But above all, the hierarchy of administrative layers used to play a crucial role in inter-governmental financial transfers: Funds were passed through *oblast* and *raion* state administrations down to local communities, leading to significant financial dependence of the *aiyl okmotu* on the upper levels.

At the different levels of administration, two types of sub-national administrative bodies exist: bodies of local state administration and bodies of local self-government. Local state administration bodies exist at the *oblast* and *raion* levels. They receive and execute instructions from the national level and are headed by appointed governors (*oblast*) and *akims* (*raion*). Both *oblast* and *raion* state administrations have locally elected councils (*keneshi*) that formally have the right to confirm governors and *akims*

nominated by the president. In fact, however, these councils have little oversight over policy-making or control over the respective state administrations.

In contrast to local state administrations, bodies of local self-government are legally independent of the central government. Bodies of local self-government include administrations and councils (*keneshi*) at the third tier of government – i.e. *aiyl okmotu* and *raion*-subordinate cities. They are accountable to the population of their respective jurisdiction. Formally, *oblast* and *raion* councils are also considered bodies of local self-government. Due to their weak position, however, it is only the third tier of government that comes close to what is understood internationally to be local self-government.

One further body at the local level of the Kyrgyz administrative system demands special attention: the so-called *kurultai* (people's assembly) that can take place at various territorial levels. Here, interested citizens can meet members of the respective *kenesh* and administration representatives. Issues of local importance are discussed and possible recommendations developed here. *Kurultai* are held at least once a year. According to the relevant legislation, these assemblies are a possibility for participants to actively take part in and influence policy- and decision-making. In cases involving severe problems, the community or the *kenesh* can convene assemblies with the respective administrations. Furthermore, these assemblies serve as consultative meetings where the administrations present their ideas and development strategies for the future.

Beside these institutional arrangements, most reform efforts concerning decentralisation in the past decade have failed to combine delegation of functions with adequate financial resources at the lower levels of Kyrgyzstan's administrative system. Therefore, a significant gap exists between the functions that local governments have to fulfil and the financial means needed to fund these tasks. Ineffective and unpredictable budget allocations significantly limit the ability to establish budgets, the main strategic instrument for planning, implementation and monitoring of public programs at the local level.

The problem of inadequate budget formulation processes and of insufficient transparency in the inter-governmental finance system was addressed by government in the "Law on Financial and Economic Basis of Local Self-Government," effective since January 2004. This law clarifies the

fiscal relations between the state and local self-governments and establishes some degree of financial autonomy for the latter. It also clarifies, to some extent, arrangements for local taxes. But most importantly, the law limits the ability of *raion* state administrations to interfere in the fiscal affairs of local governments.

Prior to enactment of the law, fiscal bodies at all levels of government were part of a rigidly hierarchical structure that was dominated by the Ministry of Finance. Thus, significant political resistance to decentralisation can be found within this ministry, which fears losing oversight over local expenditures. The clarification of the fiscal relationship between the state and local self-governments provided by the new law is a major step forward, although the extent to which this new law will contribute to a more strategic and open budget policy formulation is a matter that remains to be seen in future budget cycles.

Generally, local budget revenues consist of own-source taxes and non-tax revenues on the one hand and of taxes and revenues allocated at the national levels as well as transfers and grants on the other. According to the new law, revenues in surplus of expenditures will now remain within the local budget, whereas previously they had to be handed back to upper levels or resulted in lower financial allocations. Ideally, this should provide local governments with incentives to manage resources more efficiently and to effectively collect taxes and other funds.

Two aspects make local budgets an important issue for the topic under discussion in this study: firstly, they are supposed to be elaborated with the participation of bodies of local self-government, namely the *keneshi*. Draft budgets are also discussed in *kurultai* meetings. Secondly, the size of the budget determines the approach to and extent of locally provided public services, including measures for local economic development. In sum, the Kyrgyz decentralisation process has made progress in several fields but a balanced and sustainable new division of labour, competences and resources has yet to be found. A number of problems are related to the very design of the reform. Even more important, however, is the insufficient implementation of existing legislation due to unwillingness on the part of some actors and a lack of confidence on the part of others. Four clusters of problems are most salient in this regard:

*Lack of functional assignments.* There is no clear distinction between the functions at *oblast* and at *raion* level. Duplications of functions are com-



mon. *Keneshi* and local administrations are not truly independent of state authorities, and their actual decision-making competencies are very limited. Existing regulations concerning the delegation and delimitation of competencies have not been satisfactorily implemented. Furthermore, nepotism and corruption pose an additional obstacle to transparent and democratic structures.

*Lack of finance at the local level.* Grants and transfers to lower levels are insufficient to pay even the salaries of local administrative staff. At the same time, own-source revenues of local self-government at *aiyl okmotu* level are often of such minor importance for local budgets that they do not even suffice to close the gap between tasks assigned by the central government and the actual funds transferred for the purpose. Thus, bodies of local self-government have no financial autonomy. This situation limits the ability of the *aiyl okmotu* to decide on and implement their own policies and makes them wholly dependent on transfers from the upper levels. Although grants and transfers will be calculated according to transparent formulae in the near future, the problem now is that funds are passed top-down through all layers of administration. This implies the possibility that not all funds actually reach the bottom layer on time or in their full amounts. In addition, even officials in responsible positions at *raion* or *aiyl okmotu* level are not always aware of existing budget formation procedures.

*Limited capacities at local level.* At the *aiyl okmotu* level and also at *raion* and *oblast* level, staff is not adequately qualified to fulfil all the tasks connected to local self-government. The national decentralisation strategy provides for delegation of numerous functions to the local levels. Yet, far too few training measures for local government staff are actually available. In addition, many *aiyl okmotu* focus on trainings on how to apply for donor projects. This does not contribute to capacity building for administrative tasks.

*Disproportionate power of local state administration.* The central government has not managed to effectively reform local state administration since the stakeholders in the authorities are very influential in their respective regions and districts. In particular, there is strong resistance within the local state administrations to hand down power and to accept the possible elimination of either the *oblast* or the *raion* level. Often, tasks are transferred to the *aiyl okmotu* level arbitrarily or according to informal rules, and not in keeping with the principles of subsidiarity. The *keneshi* at *raion*

and *oblast* level are close to insignificant because they have no means to control the administrations or to make them accountable. Even though *keneshi* are influential at *aiyl okmotu* level, the corresponding administrations have hardly any means to implement locally elaborated development plans due to their lack of finance. Thus, even though *keneshi* take part in decision-making, they only have limited influence on policies. Besides, from the Soviet period, people are acquainted with top-down decision-making processes that they could not influence. Many people still have the expectation that decisions will be taken elsewhere, and they do not feel responsible for taking part in the making of public decisions.

Both the Kyrgyz government and international donors have made efforts to improve the decentralisation process. Whereas the government plans to develop new legal frameworks, some international donors are focusing on assisting the bodies of local self-government in coping with their new responsibilities.

### *Policies and measures for local economic development in the Kyrgyz Republic*

In analysing policies and measures for local economic development in the Kyrgyz Republic, it turns out that the weak position of *aiyl okmotu* in the ongoing decentralisation process has significant impact. The *aiyl okmotu* has very limited possibilities to actively design and implement public policies in the field of local economic development. The *raion* administration, by contrast, is much more involved in the promotion of local economic development. At this level, more financial resources are available and staff is better educated and trained. The *raion* administration holds the key capacities needed to promote local economic development, and this is therefore the level to which people turn when they have problems concerning their businesses.

Yet, participation is mainly possible at *aiyl okmotu* level and not at *raion* level. An appointed *raion* administration as the key decision-maker in local economic development is clearly at odds with the political goal of decentralisation: bringing relevant decisions closer to the people, strengthening downward accountability of local decision-makers to a local constituency and encouraging policies that reflect the needs of the local population.

In addition, at both levels, *aiyl okmotu* and *raion*, policies are not designed strategically and comprehensively. Instead, single and issue-driven measures dominate the administrations' engagement in local economic development. Even with such an approach, however, more could be done by local administrations by way of removing all kinds of obstacles posed to business activities.

### *Participation in local economic development in the Kyrgyz Republic*

Participation of large parts of the population in decision-making is in general not very widespread in Kyrgyzstan. However, the decentralisation process has created different channels which are supposed to enable people to influence the work of local authorities in different ways. These formal channels are local elections, local councils (*keneshi*), people's assemblies (*kurultai*), and condominium associations. Furthermore, official meetings between administration and businesspeople also serve as a channel of participation.

In principle, the formal channels of participation created through the decentralisation process have great potential. However, none of them works as intended. Only very few stakeholders are familiar with the exact functions of these channels according to the law. Consequently, the channels function arbitrarily and not always to the benefit of citizens. Another important factor that keeps people from actively using the formal channels of participation is the extremely limited scope of responsibilities and policy-making possibilities of administrations at *aiyl okmotu* level, for which most of the participatory channels have been created. As long as participation is confined to issues of minor relevance, it does not even make much sense to improve the channels which enable this kind of participation. Instead, such an approach would tend to confirm and strengthen people's sceptical attitudes towards decentralisation.

The minor importance of formal channels of participation gives leeway to all kinds of informal communication. If people are unable to take part in decision-making or to voice their opinions in any formal way, they look for alternatives to influence decisions in their favour. In the case of Kyrgyzstan, having the right personal contacts and paying bribes are the most common approaches.

Obviously, informal channels such as personal contacts and bribery violate the basic principles of democratic participation: equal access, transparency and openness to everyone. At the same time, these informal channels reinforce general dissatisfaction with the system. Problems that are solved through these informal channels are individual in nature and the process of finding solutions is issue-driven. This practice undermines strategic policy-making, in which participation would make sense, and gives rise to a vicious circle in which people tend to resign instead of making the greatest possible use of the formal instruments available to them.

This problematic situation has been recognised by the donor community, and some measures have been developed to improve the possibilities for citizen participation based on equal access. Some of the donors active in decentralisation policies have combined their investment in local development with the creation of new channels of participation such as Local Investment Councils and Public Hearings. However, there is a danger in these tools that parallel structures are being created that may weaken rather than strengthen existing formal channels of participation by undermining the authority of elected self-governments.

While a deficient decentralisation process that leaves formal channels of local participation without meaningful authority is a major factor accounting for inadequate popular participation, the situation is exacerbated by a second factor that can tentatively be termed “unfavourable attitudes.” Many stakeholders hold attitudes that are not favourable to active participation in local political decision-making. Among both the population and administration representatives an obedient, though rather critical, attitude towards authority and hierarchy tends to combine with a sceptical attitude towards institutions of democracy. Such attitudes display characteristics that can be linked to the authoritarian legacy of the Soviet Union, which continues to influence society and institutions in today’s Kyrgyzstan. High expectations with regard to what official authorities *should* ideally do contrast with widespread dissatisfaction with their performance and a generally pessimistic view of what authorities *will* likely do. Popular perception of authority as legitimate rests much more on tradition and transfer of power from above than on performance and accountability to the people. Officials in administrations and local councils mirror these attitudes with their own paternalistic mind-sets.

Nonetheless, in contrast to the overwhelming attitude of obedience and scepticism on the one hand and paternalism on the other, some reports indicate that citizens in Kyrgyzstan are starting to get more and more involved in matters of local significance and that engagement in local affairs has notably increased compared to Soviet times. The impact of positive examples, however, is likely to remain rather limited as long as bodies of local self-government continue to be as powerless as this study has found them to be. Over the long term, attitudes respond to new circumstances and reward positive experiences. But in the absence of such positive experiences, pre-democratic legacies in Kyrgyzstan are likely to prevail.

### *Recommendations*

With a view to improving the process of decentralisation in Kyrgyzstan, increasing the potential of local economic development and strengthening popular participation, the Kyrgyz government, other official bodies, local NGOs and international donors should consider the following recommendations:

1. Local self-government bodies need meaningful budget revenues that provide them with financial resources which they can use at their own discretion. Full implementation of the new legislation on the financial and economic basis of local self-government would be a first important step in this direction. Donor agencies could contribute substantially to resolving this issue by providing legal advice and support for information campaigns as well as other measures.
2. Administrative practice needs to move away from the notion of “every level of government does everything.” Local self-government bodies need their own guaranteed sphere of competencies and adequate administrative resources to deal with them. Only then can they begin to define their own sustainable strategies and act according to their own priorities. One first step could be the establishment of an administrative court system. For a strict delineation of powers to work in practice, local self-government bodies need to be able to turn to a court when they have disputes over competencies with a body of local state administration.
3. All levels of government as well as international donors should invest in capacity building for local administrative staff. One important part

of such trainings should include guidance on the delivery of public services, particularly on how to devise policies of local economic development. For its part, government should create incentives to induce administrative staff to take part in such training measures.

4. Both local self-government bodies and local state administration should pay more attention to local economic development measures that incur little or no cost. Above all, this means removing obstacles to business activities, making administrative procedures more transparent and combating corruption.
5. NGOs and donor agencies that attempt to strengthen popular participation should systematically involve and support formal institutions such as *keneshi* and *kurultai*, and in this way help to boost their reputation as important channels of participation. It is essential to avoid creating parallel structures that circumvent the official channels because such structures weaken formal institutions.
6. Local governments as well as NGOs should invest more effort in informing the population about possibilities to participate in local decision-making and training local activists in making use of these instruments.

# 1 Introduction

Decentralisation is arguably the most prominent of the strategies for better governance that international aid agencies propose, regularly and with great confidence, to newly democratising and developing countries. Indeed, the simple message underlying the concept of decentralisation appeals immediately and has the ring almost of a truism: Bring decision-making on public policies as close to the people as possible, and the result will be an increase in effectiveness and efficiency of the process as well as a higher degree of legitimacy and accountability for the outcome.

However, examples of decentralising countries in many parts of the world demonstrate that “decentralisation is obviously not a ‘development panacea’.”<sup>1</sup> Often, it fails to yield the expected results. In some cases, its outcomes are even harmful. Apparently, the reform processes associated with the implementation of decentralisation strategies are themselves beset with risks and pitfalls. Accordingly, in recent years a whole body of scholarly literature has raised doubts as to the usefulness of decentralisation for promotion of development and poverty reduction.<sup>2</sup>

Yet rather than discarding decentralisation as such, the challenge lies in improvement of the concept and its prudent, case-specific implementation. In the long run, there is little reason to assume that a centralised state that is not willing to share responsibilities and power with elected and accountable bodies of local government will be more conducive to sustainable development than a decentralised one that is able to engage its people in the pursuit of their local affairs. In centralised states, short-term gains in effectiveness and operational capability are usually followed by long-term losses in adaptability, control capacity and information feedback. But just as the centralised “developmental state” is predicated on a set of highly demanding preconditions (which more often than not are unattainable), in order to succeed, decentralised government requires that certain conditions be met. The most important of these conditions is a thorough prior analysis of political and administrative circumstances in a given country. Another factor of crucial importance is the need to monitor problems and obstacles that obstruct the intended effects of decentralisation.

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1 SLSA (2003, 94).

2 Cf. Coly / Breckner (2004, 3).

One region where at the beginning of the 1990s decentralisation became an obvious requirement of government reform is the area of the former Soviet Union. Highly centralised in political terms but formally endowed with a rich set of administrative and representative structures from the top down to numerous local levels, many Soviet successor states turned to decentralisation as one of their first reform projects after independence. More than a decade later, in many of these countries decentralisation still ranks high on the political agenda. While some success has been achieved, many of the problems that decentralisation was intended to help overcome – such as inefficient planning, insufficient public service delivery, an unaccountable bureaucracy etc. – are often still in evidence. In some cases, new problems have emerged, or old ones, such as corruption, have worsened. Far from having been completed, decentralisation has become a constant battle cry of political rhetoric and a permanent problem as far as implementation is concerned. This is particularly true for most of the successor states on the southern rim of the former Soviet Union, i.e. in Central Asia and the Caucasus.

The Kyrgyz Republic (Kyrgyzstan) provides a good example for a study of the problems and opportunities involved in decentralisation. For more than ten years, decentralisation and reform of local government have been important elements of Kyrgyzstan's efforts to improve state governance. While the country is not particularly large in terms of territory and population, its geography and regional fragmentation provide a good case for decentralisation: High mountains separate different parts of the country from one another, and in some areas there are sizable pockets of minority populations (mainly Uzbeks). Several international donor agencies have established programmes to support the Kyrgyz decentralisation process. Repeated efforts have been made by the government to implement existing legislation on the ground and adapt the legal and institutional framework wherever necessary. Nonetheless, local governments appear to be very limited in their ability to meet the high expectations associated with decentralisation and the introduction of local self-government.

While there is wide-spread agreement among experts about the diagnosis as such, so far little research has been done on the exact reasons for this situation and their effects on the Kyrgyz Republic's development potential. To address this question, this study, based on empirical research carried out from February to April 2004, analyses one particular aspect of



decentralisation in the Kyrgyz Republic, namely its impact on popular participation in the design and implementation of local economic development policies.<sup>3</sup> Starting from this analysis, the study derives conclusions and recommendations for the Kyrgyz government and other official bodies, local NGOs and international donors.

The events of spring 2005 that led to a sudden change of leadership in Kyrgyzstan have neither fundamentally altered the conditions for decentralisation nor obviated the need to analyse deficiencies and improve the process wherever possible. While fears have been raised that Kyrgyzstan might break up along its north-south divide, a judicious policy of decentralisation that does not mistake leaving communities to their own devices for decentralised governance may actually be the only reasonable instrument to preserve the country's unity *and* functional capability. For this reason, the study starts out from the premise that the findings produced during the research for this project have not lost any of their relevance. Rather, the recent political changes have opened a window of opportunity for the new Kyrgyz government to proceed with decentralisation in a more determined and more coherent manner than was the case in the past.

The focus in this study on participation is not accidental. From a development perspective, popular participation is one of the key objectives decentralisation is supposed to promote. Simultaneously, the goal of participation cuts across all other dimensions of development. A higher degree of popular participation is a necessary precondition for decentralisation to unfold many of its other intended effects – such as more efficiency in public service delivery or more accountability and transparency of local government. At the same time, participation is an issue of high “political” relevance. As it touches upon existing patterns of power and influence, the idea of broader popular participation in decision-making is likely to provoke resistance from many quarters. Successful resistance to more participation, however, can render any attempt at decentralisation meaningless.

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3 Technically speaking, participation is regarded as the *dependent* variable of the analysis, the factor that is influenced by an *independent* variable, namely, decentralisation. Local economic development comes into play since participation occurs not *per se* but only with respect to a process *in which* actors participate in a certain way (or not at all). Local economic development, thus, is the policy field that has been chosen to analyse participation and the way it has been influenced by decentralisation.

Local economic development, in turn, is one of the main policy fields where positive effects of decentralisation are supposed to make themselves felt. The aim of creating a more conducive environment for successful local development is one of the main rationales making the concept of decentralisation so popular with international development agencies. Yet interestingly, most of the intellectual efforts devoted in recent years by the international development community to the promotion of local economic development have concentrated on the question of how to devise the right *policies*. The crucial problem of *how* decisions on policies are actually made, i.e. how processes (*politics*) and institutional context (*polity*) influence the choices the relevant actors make has largely been left aside. However, beside compelling theoretical arguments, the practice of LED provides good empirical reasons to assume that the politics and polity dimensions of local economic development are essential factors that need to be taken into account in this particular policy area as well.<sup>4</sup> Consequently, the impact of decentralisation on local economic development deserves particular attention.

In sum, this study rests on three normative assumptions derived from theoretical considerations:

1. Ideally, decentralisation increases opportunities for, and eventually leads to more, popular participation in local political decision-making.
2. Effective decentralisation enables local governments to devise public policies in the area of local economic development that are in line with both local circumstances and needs.
3. Broader participation that involves large parts of the population has a positive impact on the design and implementation of local economic development policies.

Looking at the case of Kyrgyzstan, our conclusion is that important steps towards decentralisation have in fact been taken. Yet much more needs to be done if Kyrgyz state and society are to fully realise the potential inherent in decentralisation. In particular, there are still many barriers to effective popular participation in local political decision-making. This study identifies the main reasons that account for these shortcomings and makes suggestions on how the situation could be improved.

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4 Cf. Meyer-Stamer (2003a).

In any given society, political decision-making is a process that is shaped by both formal structures and informal arrangements. Together, formal structures and informal arrangements form the set of institutions that govern political interaction. From such a perspective, one that is in line with an important strand of scholarly research on institutional change, political reform is viewed as an effort to not only adopt new formal rules but also make them work against the backdrop of existing informal arrangements. To gain a better understanding of the informal institutions at work, it is necessary to be aware of the historical legacy that exists in a society and influences the way actors perceive their interests and constraints. To grasp the meaning and consequences of legacies, informality and resistance to reform, we thus combine a focus on institutions (both formal and informal) with a perspective on actor interests and historical development.

The findings of this study are intended to equip both policy-makers in the Kyrgyz Republic and bilateral and international donors active in the country with empirical research findings on the effects that decentralisation has at present in one particular policy area. Moreover, at a more general level, we believe that some lessons can be learnt that are conducive to a better understanding of the political, social and cultural context in which political reforms are embedded in post-communist countries of the Central Asian region. Knowledge of this context is essential if international donor agencies are to successfully support large-scale reform efforts that will eventually help to reduce poverty and conflict in the region.

### *Decentralisation, participation and local economic development in the Kyrgyz Republic*

As has been stated above, at present popular participation at the local level cannot yet be said to have effectively improved in the Kyrgyz Republic. Our research indicates that the reasons for these shortcomings do not lie primarily in the policy-making process at the local level itself but are closely linked to the design and implementation of decentralisation policies. Some of the crucial obstacles to effective decentralisation have not yet been removed. Most important among them are an unclear legal and real separation of competencies between the different levels of government, the disproportionate power of bodies of state administration vis-à-vis local self-government and insufficient financial resources as well as a lack of qualified personnel at the local level. Accordingly, one part of this

study is devoted to the overall framework of decentralisation in the Kyrgyz Republic, the transfer of responsibilities to the different levels of government and key deficits of the process.

So far, little research has been done on the efforts of local governments in Kyrgyzstan to promote local economic development. Our study shows that due to shortcomings inherent in the decentralisation process, these efforts are very limited indeed. While, to different degrees, individual measures designed to support the development of local businesses can be observed at different levels of local government, comprehensive approaches to local economic development are virtually absent. Yet despite their limited policy-making capacities, local governments are not left completely without instruments. Instead, our research shows that there is considerable scope available to eliminate all kinds of obstacles posed by local governments to business activities.

All the deficits mentioned above notwithstanding, the Kyrgyz decentralisation process has installed important formal channels for participation in local political decision-making. At present, however, stakeholders involved in local politics – and in local economic development in particular – are making insufficient use of these instruments. While the limited measure of decision-making power possessed by these channels under the conditions given is certainly a major disincentive for active engagement, another important factor involved is the stakeholders' general attitudes towards participation. Scepticism towards the use of local councils, assemblies or other platforms to promote particular policies as well as a 'traditional' respect for state authorities and hierarchies among both the population and administrative staff pose an additional obstacle to an active exchange of views between government bodies and society.

One more hypothesis addressed in this study is derived from the literature on political reform processes in post-Soviet countries in general. Comparative experience suggests that only a limited number of actors at the local level enjoy increased opportunities for participation, while for many others little has changed at all. Consequently, there are reasons to assume that policies towards local economic development reflect only the views and interests of a certain minority, while others, and in particular the voices and needs of the marginalized and poor, tend to remain unheard. The empirical data collected for this study do not permit any final conclusion on this issue since the scope of action of local governments is too limited to

allow judgments on procedures concerning fundamental policy decisions. Single-issue decisions, however, indicate that concerns about the inclusiveness of local decision-making procedures may well be justified. Where, for example, there are individual business promotion measures in place, information about them, and access to them, are often distributed very unequally. Here, again, it appears crucial to place particular emphasis on functioning participation in order to ensure transparency in decision-making procedures and equal access to them.

### *Research approach, methods, and structure of the study*

The research for this study employed qualitative empirical methods. Based on extensive reading on both the thematic issues concerned and the particular challenges facing Kyrgyzstan, a sample of local communities was selected for in-depth case studies. Beside the analysis of documents, semi-structured interviews with representatives of the public and private sector, civil society and expert institutions were an important source of information. A body of some one hundred interviews<sup>5</sup> helped to shape a clearer picture of the opportunities and problems inherent in the Kyrgyz decentralisation process. A detailed description of the methodology can be found in Annex B.

Following this introduction, Chapter 0 gives an outline of the conceptual framework used in the analysis. The concepts of decentralisation, participation and local economic development are introduced and defined in their function for this study. The chapter first explores the meaning, scope and downsides of these concepts as well as their mutual interrelationships.

Starting from there, Chapter 3 turns to the case of the Kyrgyz Republic and the decentralisation process the country has undergone thus far. Chapter 0 presents and discusses policies and measures in the field of local economic development that are in place in the Kyrgyz Republic and analyses them with regard to the effect decentralisation has on their design and implementation. Chapter 0 then addresses the core of the research project, i.e. the role

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5 Since many interviewees asked not to be quoted personally, all citations referring to interviews in this study appear in a coded form, revealing only the type of interviewee and the date on which the interview was held (for example, “Administration, interview 450Int, 15/03/04”).

of participation in decision-making on local economic development and the effects of decentralisation on participation.

Finally, Chapter 6 summarises our findings, draws final conclusions and provides recommendations for different local policy-makers and international actors on how to (help) improve the current situation. The annex contains a chronology of decentralisation in Kyrgyzstan as well as a detailed description of the research design, the methods employed and their theoretical substantiation.

## **2 Conceptual framework: decentralisation, local economic development and participation**

This chapter serves to outline the concepts of decentralisation, local economic development and participation. As the “independent variable” of our analysis, decentralisation is seen as a crucial factor involved in shaping the political and administrative framework within which citizens are supposed to participate in the making of decisions on local economic development. Participation, thus, is the “dependent variable” of our analysis, while local economic development is the policy field chosen to analyse participation and the way it has been influenced by decentralisation.

### **2.1 Decentralisation**

Decentralisation efforts rank high on the political agenda of many developing countries, including the Soviet successor states. Reforms aim at enhancing efficiency and effectiveness of local administrations in public service provision by bringing decision-making processes and responsibilities as close to the people as possible.

The aspects of decentralisation presented in this section aim to provide an understanding of the concept of decentralisation used for the present study. The theoretical framework outlined here is meant to help to evaluate the empirical findings presented later on.

This section outlines three crucial aspects related to decentralisation: the concept as such, impacts of decentralisation, and preconditions of and problems related to decentralisation reforms. Possible approaches, used by international donors to promote decentralisation, are highlighted.

## 2.1.1 The concept of decentralisation

### *Definitions*

Various donor publications as well as academic writings show that decentralisation is a complex concept with no single or commonly accepted definition. However, the fundamentals associated with decentralisation are close to consistent from country to country and from donor to donor<sup>6</sup>

Decentralisation can generally be understood as “[...] the process by which authority, responsibility, power, resources and accountability are transferred from the central levels of government to sub-national levels [...] Conceptually, decentralisation relates to the role of, and the relationship between, central and sub-national institutions, whether they are public, private or civic.”<sup>7</sup> The sub-national entities provide a number of basic public services and exercise basic administrative functions.

One of the main pillars of decentralisation is local self-government. According to the European Charter of Local Self-Government, a document related to the Council of Europe,

*“local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population. This right shall be exercised by [democratically elected representative bodies] entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their power.”<sup>8</sup>*

Subsidiarity, an underlying principle of decentralisation, implies that tasks should only be performed by higher-level authorities if lower levels of government are unable to do so properly.

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6 UNDP / BMZ (2000, 26).

7 UNDP (1997), cited in UNDP / BMZ (2000, 28).

8 Council of Europe (1985, 2).

### *Categories of decentralisation and their different forms<sup>9</sup>*

Usually, four categories of decentralisation are distinguished, namely political, administrative, fiscal, and market decentralisation. Each of them has different characteristics, policy implications, and conditions for success. It is useful to distinguish among categories of decentralisation to highlight its many dimensions. But still, these concepts have considerable overlaps. Furthermore, decentralisation efforts are strongly linked to a country's size, population, history, political climate, geographic and ethnic diversity. The categories can thus appear in different forms and combinations within countries, and even within sectors. Precise definitions are thus less important than ensuring a balanced and comprehensive approach.<sup>10</sup>

- *Political decentralisation* normally denotes situations where political power and authority have been transferred to sub-national levels. The most obvious manifestations of this type of decentralisation are elected and empowered sub-national governments ranging from village councils to state level bodies. One aspect of political decentralisation is *devolution*. Devolution refers to a full transfer of certain responsibilities, decision-making powers, resources and revenue generation to a local level of public authority that is autonomous and fully independent of the devolving authority. Devolved units usually are elected, independent legal entities, accountable to the electorate.
- *Administrative decentralisation* focuses on delivery of a selected number of public services at local level. It transfers decision-making authority, resources and responsibilities for service delivery from the central to lower levels of government. Examples are local agencies and field offices of central government institutions. Two forms of administrative decentralisation can be differentiated: Deconcentration disperses decision-making authority and responsibility from the central government to lower levels, with the local units remaining accountable to the central government. Deconcentration is often considered the weakest form of decentralisation and can be seen as a first step in newly decentralising governments to improve service delivery. Delegation, on the other hand, redistributes authority and responsibility to local units that are not necessarily branches or local offices of the delegating authority, but are ultimately accountable to it as far as

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<sup>9</sup> For this section, cf. UNDP / BMZ (2000, 30) and Litvack / Seddon (2000, 2).

<sup>10</sup> Litvack / Seddon (2000, 2).



delegated competencies are concerned. Examples are public enterprises or corporations, housing authorities, transportation authorities, special service districts, etc.

- *Fiscal decentralisation* is a crucial cross-cutting category. Local governments and private organisations must have at their disposal adequate revenues to carry out decentralised functions effectively. They need the authority to make expenditure decisions independently. Arrangements for resource allocation include concerns for interregional equity, availability of central and local resources as well as local fiscal management capacity. Fiscal decentralisation can take many forms, the most important of which are intergovernmental transfers of revenues from central to local governments and the expansion of local revenues through taxes or indirect charges that remain in the local budget.<sup>11</sup> Cost recovery of publicly provided services through user charges is another aspect of local budget management. Additional local sources of finance can be established through authorisation of municipal borrowing with state guarantees. Services can also be co-financed or co-produced by users through monetary or labour contributions.
- *Market decentralisation* transfers public functions from government to voluntary, private, or non-governmental institutions. This often involves contracting out partial service provision or administrative functions, deregulation or full privatisation. Deregulation reduces the legal constraints on private participation in public service provision or allows for competition among private suppliers. Privatisation can range from provision of goods and services by market forces only to public-private partnerships in which government and the private sector co-operate.

## 2.1.2 The impact of decentralisation

In many developing countries, decentralisation has become an important component of political reform processes. In the newly independent states of the former Soviet Union, such as the Kyrgyz Republic, decentralisation

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<sup>11</sup> In many developing countries local governments or administrative units have the legal authority to impose taxes, but the tax base is so weak and dependence on central government subsidies so ingrained that no attempt is made to exercise that authority; cf. Litvack / Seddon (2000, 3).

is closely linked to reforms of the overall government and administrative system, since the old central apparatus crumbled over a decade ago as a consequence of the demise of the Soviet Union.

Decentralisation is not an end itself. The rationale for decentralisation rests on the assumption that decentralised government structures can improve efficiency and transparency in public management. Furthermore, it is assumed that empowered local units of government can be more responsive to citizens' needs, thus contributing to promotion of democracy and economic and social development.<sup>12</sup> Successful decentralisation mainly aims at four intended and closely interrelated effects: participation, efficiency, accountability and transparency as well as mobilisation of local development potential.

- *Participation:* Decentralisation brings government closer to the people by placing more power and resources at a closer, more familiar level of government.<sup>13</sup> Consolidation of local democratic processes through enlarged opportunities for citizen participation can promote democracy nation-wide. Decentralisation also facilitates participation and representation of different interest groups (ethnic, religious, political, economic, and social) at the local level and thereby reduces the risk of social conflict.<sup>14</sup> Additionally, it can provide opportunities for political participation of women, enabling a more gender-sensitive approach to policy formulation and implementation at the local level.<sup>15</sup> To be effective, participatory mechanisms should respond to specific local needs and circumstances, taking into account local customs and traditions.<sup>16</sup> Since participation is the main object of investigation in this study, Chapter 2.2 presents the concept of participation, including its benefits and risks, in more detail.
- *Efficiency:* Local governments are likely to have better information on citizens' needs and/or demands. The former will thus be able to provide services more efficiently and effectively than the central government.<sup>17</sup>

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12 BMZ (2002, 5f).

13 UNDP (2003, 134) and World Bank (2001a, iv).

14 BMZ (2002, 7).

15 Litvack / Seddon (2000, 15) and UNDP (2003, 134).

16 UNDP / BMZ (2000, 33).

17 UNDP (2003, 134) and World Bank (2001a, iv).

- *Accountability and transparency:* Clear-cut accountability and division of roles and responsibilities are key elements of decentralisation. But local officials must also have authority and resources corresponding to their functions if they are to be able to take over the responsibility assigned to them.<sup>18</sup> If these requirements are met, public administration becomes more transparent and can be monitored more efficiently. This can help to reduce corruption and improve resource allocation and distribution.<sup>19</sup>
- *Mobilisation of local development potential:* Increased direct local responsibility provides an opportunity for local economic growth. Favourable local conditions can encourage people's entrepreneurial activities and create basic conditions to formalise the informal sector at the local level. By providing and maintaining credible frameworks for local economic development, local governments can promote private investment, and this in turn increases local revenues.<sup>20</sup>

However, numerous risks can jeopardise the positive effects intended with the promotion of decentralisation. For decentralisation to achieve the above-mentioned effects, it is crucial to identify and analyse potential risks in order to implement mechanisms designed to prevent their occurrence. But not every risk can be prevented beforehand. The anticipated benefits of given measures must be weighted against the possible costs.

Potential risks of decentralisation include the following issues:<sup>21</sup>

- *Participation* may be jeopardised when clientelist structures, local elites or corrupt practices hinder equal participation by all stakeholders, even though formal channels of participation may exist.
- *Ethnic divisions* and even autonomy movements can be perpetuated by decentralisation efforts if the needs of minorities are not equally represented. As a result, insufficient consideration of potential winners and losers in the decentralisation process can lead to social conflicts.
- *Inefficient service provision* at the local level can arise due to unqualified staff at the local level and due to unrestrained spending by local

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18 UNDP / BMZ (2000, 32f).

19 BMZ (2002, 6).

20 Cf. World Bank (1997, 123); BMZ (2002, 8).

21 BMZ (2002, 7).

authorities. The possible ‘decentralisation’ of corruption, when more powers and resources are placed at the local level, may further hinder efficient service provision.

- *Unequal development opportunities* for regions or individual groups of people within regions can result from different costs of service provision despite similar tax revenue bases. A lack of commitment by decentralised government bodies to poverty reduction and compensatory social transfer payments exacerbates this problem.
- *Macro-economic stability* can be threatened by a lack of fiscal discipline at sub-national levels of government.

### 2.1.3 Preconditions and problems of decentralisation

If decentralisation is to achieve beneficial impacts, it is crucial that consideration be given to several preconditions without which decentralisation reforms may face substantial problems or even fail.

- *Effective state capacity*: Decentralisation requires co-ordination between different levels of government and more regulation – not less – to ensure basic representation, efficiency, transparency and accountability. The state has to oversee, regulate and, where necessary, sanction local authorities so that all groups of citizens benefit from political reform. Weak supervisory and co-ordination performance by government agencies can offer ways for local elites to pursue their private agendas. ‘Decentralised’ corruption can also be a consequence of lacking state capacity at the centre.<sup>22</sup>
- *Empowered, committed, competent local authorities*: Local authorities need to have adequate resources and corresponding decision-making powers to perform their responsibilities. Furthermore, administrative staff at the local level and elected representatives must have the understanding and expertise they need to formulate and implement their own policies. Local governments must also be held accountable from below (by the electorate) and from above (by central government).<sup>23</sup>
- *Engaged, informed, organised citizens and civil societies*: Political participation of civil society - beyond taking part in democratic elec-

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22 BMZ (2002, 6).

23 UNDP (2003, 139) and BMZ (2002, 10).

tions - is essential to avoid risks such as decentralisation of corruption and increased local clientelism. A well-developed, well-informed civil society, which is able to collect and articulate the views of the community, is important if local authorities are to be responsive to people's needs.<sup>24</sup> Equitable treatment of all sections of society (ethnic groups, men and women etc.) is of special relevance in this context.<sup>25</sup> Participation mechanisms must be sufficient to enable citizens to exert effective control over administration and political decision-makers.<sup>26</sup> Problems can occur if civil society groups lack the essential expertise they need to build efficient organisational structures.

These preconditions show that decentralisation requires more than just certain political reforms – decentralisation also calls for establishment of a three-way relationship between local governments, civil society and central government.<sup>27</sup>

Nevertheless, many administrations in effect continue to operate on centralist lines, despite policy declarations and some initial legislation aiming at decentralisation. Administrations are often inefficient, their actions remain largely incomprehensible for the population and present very few opportunities for participation. Donor experience suggests that co-operation of the international community with decentralising developing countries can be helpful in defining realistic objectives and expectations bearing on the outcome of reforms. In this context, approaches need to be identified that can help overcome the problems mentioned above and create the conditions required.

Among donor approaches to promoting and supporting decentralisation and local self-government, the most important are:<sup>28</sup>

- Formation of an effective legal and institutional framework (including financial reform)
- Redistribution of tasks among the public and private sector and civil society, in particular at the local level

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24 UNDP (2003, 139).

25 BMZ (2002, 9).

26 BMZ (2002, 6).

27 UNDP (2003, 137).

28 BMZ (2002, 8).

- Institutional capacity-building to support decentralisation and local self-government at national, regional and, especially, at the local level
- Organising citizens' participation in local decision-making processes. In this context, already existing channels of participation and communication between government institutions and citizens can be used to signal citizens' preferences and to induce governments to act in accordance with these preferences.

To sum up, the aim of this section was to show that decentralisation is a complex concept. Although decentralisation efforts are strongly linked to a country's characteristics (such as size, population, history, political climate and geographic and ethnic diversity), common categories, preconditions and risks apply to all reform efforts in this field.

## 2.2 Local economic development

Local economic development (LED) is one important area, or policy field, in which decentralised governance is supposed to make itself felt most clearly. This section introduces the concept of local economic development and highlights possible approaches to it so as to provide a general framework suitable to assessing the scope and relevance of the LED measures found empirically in Kyrgyzstan.

### 2.2.1 The concept of local economic development

Local economic development is defined as the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and generation of employment.<sup>29</sup> Private enterprises generally depend on favourable local business conditions to achieve prosperity. Local governments have, therefore, the essential role to create a favourable environment for business development and job creation.

*“Practising local economic development means working directly to build up the economic strength of a local area to improve its economic future and the quality of life of its inhabitants. [...] Each community has*

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29 World Bank (2003a, 1).

*unique conditions that can help or hinder the economic development. These local attributes will form the seed from which a local economic development can be developed to improve local growth opportunities. To build competitiveness each community can undertake a collaborative process to understand and act on its own strengths, weaknesses, opportunities and threats.*<sup>30</sup>

Local economic development issues have attracted increased attention during the last few years. The governments of many decentralising countries are transferring responsibilities for promotion of economic development to provincial and local governments. This process is based on the idea that local governments can more easily recognise and solve problems involved in local economic development.<sup>31</sup>

## 2.2.2 Approaches to local economic development

Local governments and communities basically have to decide what programs and projects they want to adopt to achieve their local economic development visions, goals and objectives. These options can vary and may be as relatively simple as providing a variety of services for local businesses or as complex as attracting foreign direct investment. In what ways and combinations different approaches should be used is a matter that depends on local circumstances.<sup>32</sup> However, we present here some basic approaches concerning how local governments can promote local economic development:

- *Encouraging local business growth:* Encouraging local business growth involves providing advice, support and resources to enable existing local businesses to grow. Business retention and expansion strategies can make use of different instruments:<sup>33</sup> visits, surveys and local meetings organised by local government officials, technical assistance, financial advice and assistance programmes, business-friendly public procurement policies and the provision of sites and premises by local authorities

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30 World Bank (2003a, 1).

31 Meyer-Stamer (2003b, 1).

32 Cf. World Bank (2001b).

33 World Bank (2001c, 1).

- *Encouraging new enterprises:* The approach to encouraging new enterprises includes a variety of instruments, including provision of advice, technical support, information and resources to help individuals or groups of local people to set up their own businesses.<sup>34</sup> Micro-financing schemes or the establishment of business networks are typical examples for new enterprise support.
- *Promotion of inward investment:* Inward investment focuses on the attraction of businesses from other parts of the country or even from abroad to invest in a local area.
- *Investment in hard infrastructure:* The technical infrastructure available for businesses can have a significant impact on the retention and expansion of enterprises. Some of these improvements are, however, in the responsibility of the central government; these would include e.g. ports, trunk roads and airports. Other infrastructure can be provided by local governments, e.g. key roads, sewerage disposal or water systems and commercial sites and buildings.
- *Investment in soft infrastructure:* Establishment of facilities and institutions which improve the social and commercial environment for businesses may include: education with special focus on professional skills training, business advisory services, social inclusion strategies and crime prevention measures.<sup>35</sup>
- *Sector and business cluster development:* The aim of cluster development is to support inter-firm collaboration and encourage people engaged in the same cluster to meet and exchange ideas on business development opportunities. Local authorities can also encourage small business clusters to bid in public procurements for local government buildings.

## 2.3 Participation

It is the aim of this study to analyse whether decentralisation in the Kyrgyz Republic widens arenas of participation for the local population and the private sector in the making of government decisions on local economic development. In fact, of course, decentralisation and participation have a mutually reinforcing relationship: on the one hand, the process of decen-

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<sup>34</sup> Cf. World Bank (2001d).

<sup>35</sup> Cf. World Bank (2001e).



tralisation can create opportunities for citizen participation; on the other, successful decentralisation also requires some degree of local citizen participation as one of its preconditions.<sup>36</sup>

This section develops a definition of citizen participation and examines costs and benefits of participation. The rationale for participatory development highlights the importance of participation for effective governance. Normative criteria for assessing participatory mechanisms are developed at the end of the section.

### 2.3.1 The concept of participation

The central idea of participation is to give citizens a meaningful role in government decisions that affect them, be it at the central or at the local level. Popular input into what government does is thus exercised with the aim of improving service delivery and accountability to the population. Accountability enables citizens to hold their governments responsible for how government decisions affect them.<sup>37</sup>

In accordance with the OECD/DAC guidelines on “Participatory Development and Good Governance,”<sup>38</sup> the German Ministry of Economic Cooperation and Development (BMZ) has established the following definition of participatory development:

*“Participatory development is defined as a process in which people are actively and significantly involved in all decisions affecting their lives.”*<sup>39</sup>

This definition emphasises several different aspects: first, participatory development is seen as a process. Participation is not about single events such as elections or public hearings; instead, it repeatedly and constantly involves citizens in decision-making. Secondly, active and significant participation gives citizens the possibility to ensure that their interests are heard and taken into account. As a prerequisite for this, relevant information should be provided to the local population prior to the decision-making process. Finally, the emphasis on participation in decisions affect-

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36 Litvack / Seddon (2000, 15 f).

37 Blair (2000, 22).

38 Cf. OECD (1997b).

39 BMZ (1999, 2).

ing citizens' lives points to the importance of participation for public policy formulation.

Participatory mechanisms can vary along a continuum: more far-reaching citizen or stakeholder participation with respect to influence on and control over decisions is situated at one end of the continuum. At the other end, there are more conventional conceptions under which government agencies essentially retain decision-making power and control with respect to key functions. The basic types of participation include:

- *Information:* Information provided to citizens by government agencies is the weakest but basic form of participation. It represents a one-way relationship: government produces and delivers information for use by citizens. With 'passive' information, citizens are given access to information upon demand. 'Active' information refers to measures government explicitly takes to inform to citizens.
- *Consultation and co-operation:* Consultation goes one step further: a two-way relationship is established between citizens and the state. In consultation, citizens' views are sought on specific issues defined by government bodies. Citizens then provide feedback to government and formulate their own interests. In a co-operative process, these interests are not only heard but also taken into account by decision-makers. Although citizens are not actively included in decision-making, consultation significantly increases acceptance of and identification with political decisions. As a precondition, consultation and co-operation mechanisms require the provision of information to all citizens. If citizens are given only limited information, special interest groups can capture policies by mobilising their own information campaigns and can thus influence public opinion and agenda setting.
- *Active participation:* Active participation is based on partnership: citizens actively engage in the policy-making process. They propose policy options and shape the policy dialogue. In some cases, the ultimate responsibility for decisions still rests with government, but decisions are not taken against the will of the population. In other cases, active participation includes actions that are designed and carried out in keeping with citizens' own initiative and responsibility. Government agencies then merely assume a supportive, facilitating role.

### 2.3.2 The impact of participation

Participation can significantly enhance the quality of public management and public service delivery. Regular elections and participatory practices enhance the compliance of political office holders with the needs of the electorate and strengthen the latter's acceptance of political authority. However, participation in public sector management is also faced with constraints. Both positive impact and constraints are summarised below.<sup>40</sup>

Positive impact:

- Participation can help reduce the risks of errors in the public sector, as concerns and interests of citizens and mutual channels of information can be relied upon in policy formulation.
- Participation provides access to the widest pool of local resources and initiatives and supports creative, productive citizens.
- Participation can act as a counterbalance to government power. But participation also gives government the opportunity to demonstrate more easily the political benefit of reforms to its constituencies when preferences are exchanged and discussed on a regular basis.
- Participation ensures the representation of a wide range of interests and thus helps to reduce societal conflicts.
- Participation strengthens citizens' identification with their polity.

However, participation does not inevitably entail these positive impacts. Several risks and limitations may be inherent in both formal and informal participatory mechanisms. The positive and negative impacts of participation depend on who participates in what procedures or institutions. Furthermore, the provision of participatory mechanisms depends on the political will and determination of governments and the ruling elite. Participation therefore must be institutionalised.

To name some constraints and limitations to participation:

- Participatory forums can be misused by certain groups for an ex post legitimisation of existing power structures. Clientelism and persistent power structures can also hinder any popular participation from the very outset.

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40 Cf. Hentic / Bernier (1999) and World Bank (1997).

- Governments and elites may fear far-reaching demands of civil society groups and hinder the establishment of participation in decision-making.
- Only permanent, systemically rooted voice mechanisms create trust in government commitment and actions. Ad hoc, issue-driven participation does not contribute to long-term political stability and accountability. Quite the reverse, ad hoc participation can enable specific lobby groups to push their own interests at the expense of the larger community.
- Group participation in decision-making itself does not guarantee equal representation of interests. Civil society groups such as NGOs are built around specific issues and thus pursue special interests. They are not equally accountable to the entire population.<sup>41</sup>
- Participatory mechanisms entail transaction costs such as time and information requirements.
- Voters may tend to base their voting decisions on short-term experiences, giving more weight to events that occur around election time.<sup>42</sup> Local leaders then try to attract more votes by providing public services or investment ahead of elections. These so-called political business cycles create incentives for periodical fiscal indiscipline and thus do not enhance public service provision in the long run.
- In many societies, the preferences of the wealthy and powerful are well reflected in official policy formulation.<sup>43</sup> Poor and marginalised groups, on the other hand, find it difficult to have their voices heard. Institutions of participation have to enable representation of minority interests as well.

### 2.3.3 Rationale for participation

The major promise of democratic decentralisation and local governance is that popular participation will make government at the local level more responsive to citizen needs and more effective in service delivery.<sup>44</sup> At the

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41 Cf. Bliss (2003).

42 World Bank (2004).

43 World Bank (1997, 110).

44 Cf. Blair (2000).

same time, people's share in political, economic and social development is enlarged by participation. This requires institutions and legal frameworks in the political system, public management, the economy and society to ensure that the needs and preferences of all groups in society are reflected in official policy goals and priorities. In a nutshell, decentralisation can be understood as a means to strengthen local participation in the management of public affairs on the basis of a certain set of institutional reforms.

One primary focus of participation is empowerment: disadvantaged groups such as the poor, women, youth, ethnic or religious minority groups find it difficult to have their interests represented in decision-making. Participation can give these groups a voice. But participation also goes beyond empowerment: it is supposed to include all stakeholders in the policy process. Politicians, on the one hand, can reduce information costs if citizens are able to directly bring their needs to bear in the process of policy formulation. On the other hand, participation enables citizens to develop their own initiatives. Existing local potential can in this way be used to contribute to more innovative and responsive policy-making.

<b>Box 1: Why strengthen government-citizen relations?</b>
<p>Government-citizen relations should be strengthened in order to:</p> <ul style="list-style-type: none"> <li>• Improve the quality of policy, by allowing governments to tap wider sources of information, perspectives, and potential solutions in order to meet the challenges of policy-making under conditions of increasing complexity, policy interdependence and time pressures</li> <li>• Integrate public input into the policy-making process in order to respond to citizen's expectations that their voices will be heard and their views considered in decision-making by government</li> <li>• Respond to calls for greater government transparency and accountability; as public and media scrutiny of government actions increases, standards in public life are codified and raised</li> <li>• Strengthen public trust in government and reverse the steady erosion of voter turn-out in elections, falling membership in political parties and surveys showing declining confidence in key public institutions</li> </ul>
Source: OECD 2001, 2

In democracies, elections usually are the primary manifestation of citizen voice and preferences. However, in multiethnic societies, electoral mecha-

nisms can lead to insufficient representation of minority groups. In addition to elections, timely communication of societal preferences plays a crucial role in shaping state-citizen relations. Closer relations between state and citizens not only enhance the legitimacy of political decisions. By improving the quality of policy and by promoting transparency and accountability, state-citizen relations can lead to more responsible and responsive management of public institutions. Public sector management, defined as the ability to plan and manage public sector institutions, plays a decisive role in effecting socio-economic change in developing countries.<sup>45</sup> If local and regional governments are capable of formulating policies suited to people's needs, take timely decisions and efficiently and effectively provide public services, competence and legitimacy of the government as a whole can be improved. Universal and consensual decision-making processes and mutual channels of communication between state and citizens are likely to render public sector management more effective. Decentralisation and participation both reinforce these mechanisms.

Many donor approaches focus on the creation of an enabling environment for citizen participation. Outcome orientation, public information strategies and multi-stakeholder arrangements for governance, including civil society groups and government representatives from all branches and levels, are today widely accepted as fundamental for successful and ownership-oriented development co-operation.<sup>46</sup>

### 2.3.4 Normative criteria for participation

If participation is to make its potentially positive effects felt and overcome some of the constraints described above, it is important that certain conditions be met concerning the design of structures of participation. Three items are of critical importance here:

- *Institutionalised mechanisms of participation need to be in place.* Channels of participation in decision-making processes should not mainly be ad hoc or issue-driven but should consist of formalised, regular mechanisms.

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<sup>45</sup> Hentic / Bernier (1999, 201).

<sup>46</sup> Cf. Tikare et al. (2001).

- *Participation needs to be inclusive.* Particular social groups can capture the policy formulation process and thus misuse existing channels of participation for their individual interests. Possible rural/urban or regional biases should be recognised and addressed. Access to participatory mechanisms should be open, equal and transparent for all stakeholders.

Possible stakeholders include:<sup>47</sup>

<b>Table 1: Stakeholders in local economic development</b>		
<b>Public sector</b>	<b>Private sector</b>	<b>Civil society</b>
<ul style="list-style-type: none"> <li>• Local government</li> <li>• District or regional government</li> <li>• Elected councils</li> <li>• Sector boards and authorities (e.g., health, education, and transport)</li> <li>• Institutions of research and higher education</li> <li>• Public utility companies</li> </ul>	<ul style="list-style-type: none"> <li>• Large corporations as well as small, medium and micro-scale entrepreneurs</li> <li>• Trade unions</li> <li>• Chambers of commerce</li> <li>• Other business support groups</li> <li>• Land and real estate developers</li> <li>• Banks and other financial groups</li> <li>• News media</li> <li>• Professional associations</li> <li>• Private utilities</li> <li>• Private education establishments and think tanks</li> </ul>	<ul style="list-style-type: none"> <li>• Community leaders</li> <li>• Neighbourhood groups</li> <li>• Community service organisations</li> <li>• Local educational institutions</li> <li>• Local religious institutions</li> <li>• Other nongovernmental organisations, e.g. groups representing minorities, disabled or disadvantaged populations; groups articulating environmental issues or cultural, arts and historical interests</li> </ul>

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47 World Bank (2003a, 7).

Each of these stakeholder groups can contribute special skills and resources to the policy process concerning local economic development. Establishing working relationships and structures that engage stakeholders can thus lead to stable long-term partnerships.

However, participatory approaches to local economic development face some constraints regarding common goals of all stakeholders, representation of interests and policy formulation:

Common goals:

- Some stakeholders may pursue hidden agendas. This applies especially to large corporations that may use their voice in the local economic development process to hinder market entry for new businesses.
- The effort involved in collaborating in local economic development is costly in terms of unpaid working hours for all stakeholders involved.
- Local economic development initiatives may be misused by public and private agents to embezzle taxpayer money.
- Common as well as individual stakeholder goals have to be made explicit if a common strategy for local economic development is to be formulated.
- *Stakeholder legitimacy.* In many decision-making processes it is advisable to ensure participation of all relevant stakeholder groups rather than actively seeking to involve every single citizen of a given territory irrespective of how detached she or he may be from the issue under debate. It is important, however, to keep in mind that stakeholder activists may not necessarily be the only legitimate voice of a certain (more or less organised) group. Nor does the entirety of active stakeholder groups necessarily represent a given local community as a whole. Mechanisms of participation must therefore not be limited to insider meetings behind closed doors for recognised stakeholder representatives. Rather, openness and transparency should allow newcomers to add their voices to a cause.



## 2.4 Participation and local economic development

The empirical part of our study assesses what channels of participation exist in the Kyrgyz Republic and can be used to influence policies geared to public promotion of local economic development. First, existing policies in the field of local economic development are identified (see Chapter 4) and analysed. However, these policies alone have failed in many cases. The aspect of politics has often been neglected in this context. Yet politics is essential to reform processes, as formal and informal structures can pose an obstacle to, first, the design and, second, the implementation of conducive policies.

Promotion of local economic development aims at creating better conditions for economic growth and employment generation. Private sector enterprises create wealth, jobs and improved living standards in local communities. Local economic development can thus contribute to overall poverty reduction. However, the prosperity of private enterprises depends on favourable local business conditions – and helping to create these conditions is in the responsibility of local governments. Local economic development can be said to represent a partnership between local government, businesses and community interests.<sup>48</sup>

One crucial step in establishing channels of co-operation between the three sectors is identification of stakeholders who should participate in local economic development strategy formulation and implementation. In this context, the term stakeholder includes grassroots beneficiaries in a given setting as well as decision-makers at all levels of government that are concerned with planning and decision-making, executing and evaluating particular policies or projects in a direct or indirect way. Thus, stakeholders may be members of a local community, including businesspeople, members of local or sub-national government bodies, but also decision-makers at the central government level or within donor agencies. Naturally, all stakeholders of a particular policy intervention will pursue their own objectives, policies and responsibilities. These have to be taken into account for policy formulation.

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48 Cf. World Bank (2003, 7).

### Representation and participation of stakeholders:

- Legitimacy of representatives of stakeholders may not be guaranteed, especially if business associations and chambers are little more than clubs of businesspeople. Representatives then cannot rely on their members to comply with commitments agreed upon.<sup>49</sup> But functioning networks involve collective actors rather than individuals or single companies.
- As in all participatory processes, it is difficult to identify the actors that have to be involved in order to ensure that all interests are represented.
- Although formal channels of participation may be in place, clientelist structures or corrupt practices can significantly hinder equal participation by all stakeholders.
- Government officials and local businesspeople may have completely different backgrounds in terms of social class and education. This especially applies to the informal sector or micro and small businesses in developing countries. Communication between stakeholders may thus prove difficult.

### Policy formulation:

- Successful co-operation depends on a common understanding of what local economic development is about and which actions produce the intended short-, medium-, and long-term effects. Continuous struggle over strategies and measures can lead to deadlock.
- Changing power relations in local government as a result of recurrent elections or frequent changes of personnel may lead to new government agents pursuing goals different from those of their predecessors. Long-term consistency of policies may then be compromised, and the stakeholders of the process may be faced with a situation of reduced reliability and higher transaction costs.

To sum up, it can be said that the outcome of participatory approaches to local economic development depends very much on the commitment and political will of the various stakeholders to act in the interest of public welfare. Although local economic development policy outcomes primarily

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49 Meyer-Stamer (2003b, 12).

concern the private sector, partial interests, power relations and competing concepts are just as applicable here as in any other policy field.<sup>50</sup>

### **3 Decentralisation in the Kyrgyz Republic**

The previous chapter has presented the theoretical concepts guiding our research. This chapter goes on to outline the formal setting in which decentralisation reforms and participation in local economic development are taking place in the Kyrgyz Republic.

After the breakdown of the Soviet Union, Kyrgyzstan was among the first countries to take steps towards building a democratic society and implementing public administration reform. Having inherited a centralised political and economic system from the socialist era, decentralisation ranked high on the agenda from the very beginning of the new sovereign state. Nonetheless, despite repeated efforts to strengthen decentralisation and to bring power to the lower levels of the administrative system, there have remained numerous obstacles to decentralisation and its objectives. Many of the preconditions of decentralisation are not adequately given. The substantive political decentralisation that has already been carried out has not gone hand in hand with real administrative and, most importantly, fiscal decentralisation. Lack of regulations and clear functional distinctions between the different administrative levels constrains local governments' room for manoeuvre. This immobilisation of local self-government bodies is further deepened by a lack of financial autonomy and a lack of capable human resources. Clientelist structures as well as hierarchy-driven mindsets of citizens and representatives that can be ascribed to Soviet legacy add to an overall somewhat gloomy picture of decentralisation and local self-government in Kyrgyzstan.

This chapter begins with an overview of the historical background and the legal basis for local self-government in the Kyrgyz Republic today. We then discuss some general issues of institutional reform in the post-Soviet context before turning to the actual institutional framework of decentralised governance in Kyrgyzstan – in its administrative and its financial dimension alike. The analysis of the institutional framework reveals nu-

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50 Cf. Meyer-Stamer (2003a).

merous weaknesses of the decentralisation process that constrain the ability of local governments to pursue meaningful policies and that limit the scope of popular participation. These constraints to local self-government are summarised in the final section of this chapter.

### 3.1 Historical background and legal basis for local self-government today

Kyrgyzstan gained independence in 1991 (for an overview of basic country data and information cf. Box 2). The “Law on Local Government in the Kyrgyz Republic” was the first legal document of the new republic. This document, which laid the grounds for decentralisation in Kyrgyzstan, was a step towards creating a democratic state with reduced influence of the centre and delegation of responsibilities to local levels.<sup>51</sup> Over the years, the government introduced numerous reforms on the matter of decentralisation, most of them by presidential decree. This piecemeal approach in some cases resulted in inconsistent, sometimes even contradictory regulations, a problem that was addressed in a “National Strategy for Further Decentralisation” in 2002.

#### Box 2: The Kyrgyz Republic: basic information



51 Hanns-Seidel-Stiftung (2002, 13).

Kyrgyzstan, situated in the east of Central Asia, is a small and mountainous country with a predominantly agricultural economy. Cotton, tobacco, wool and meat are the main agricultural products, although only tobacco and cotton are exported in any quantity. The Kyrgyz Republic's plentiful water resources and mountainous terrain enable it to produce and export large quantities of hydroelectric energy. However, it also imports petroleum and gas. Metallurgy is an important industry, and the government is seeking to attract foreign investment in this field, mainly in gold. The main trading partners of Kyrgyzstan are Switzerland (gold) (19.9 %), Russia (16.5 %), China (8.5 %), and neighbouring Kazakhstan (7.6 %) and Uzbekistan (5.7 %). Within the European Union, Germany is the most important trading partner.

With the break-up of the Soviet Union, Kyrgyzstan not only lost its major trading partner (over 90 % of Kyrgyz goods were traded with members of the Soviet Union), the country also lost its major sponsor, as 20-30 % of the Kyrgyz budget came from Moscow in the years prior to 1990. In 2001, Kyrgyzstan incurred the highest foreign debt of all countries in the Commonwealth of Independent States (CIS), 111.5 % of GNP. In 2002, the Kyrgyz government and the IMF agreed on a Poverty Reduction Strategy and paved the way for debt rescheduling with the Paris Club of state creditors in March 2005.

Kyrgyzstan is a member of the Eurasian Economic Community and the Economic Community of Central Asia and furthermore of some other 25 international organisations, including the United Nations and, since 1998, the WTO. Kyrgyzstan was the first of the CIS countries to accede to the WTO.

The Kyrgyz Republic is the second-poorest country in the CIS, both in terms of per capita income and poverty incidence. According to the 2003 World Development Indicators, the share of the population living in absolute poverty was 34.1 % in 2000. A 2004 joint report of IMF and World Bank estimated 53 %, defined by an international poverty line of \$2.15 PPP. Poverty reduction is thus among the most pressing reform issues for the country. In the sector of infrastructure, privatisation of Kyrgyz Telecom and the electricity sector have been recently addressed. However, high incidences of corruption are hindering the country's economic development.

Following the break-up of the Soviet Union in 1991, the new Kyrgyz constitution was drawn up in May 1993. The executive branch is headed by the president of the republic and comprises the government and its local state administrations.

From 1990 until March 2005, Kyrgyzstan was ruled by President Askar Akayev. In several amendments to the 1993 constitution (in 1996, 1998 and 2003) Akayev had expanded his powers at the expense of the legislature. Akayev had the right to appoint the prime minister, the Cabinet of Ministers on the recommendation of

the prime minister, as well as the heads of *oblast* (provincial) and *raion* (district) administrations upon approval of the appropriate territorial representative bodies. In general, he increasingly followed a trend among his Central Asian counterparts toward an authoritarian presidential republic.

Until 2005, the parliament (*Jogorku Kenesh*) consisted of two houses. In February 2005, under a new electoral law, a new one-chamber parliament was elected. A few weeks later, a popular uprising triggered by the unfair conduct of the parliamentary election forced president Akayev out of office. Kurmanbek Bakiyev, a former prime minister turned chief oppositionist, took over as acting president and was confirmed in this office in a relatively fair presidential election less than four months later. Akayev's ouster stimulated expectations that Kyrgyzstan's political system might reverse its accelerating path towards undemocratic rule and that democracy might receive a second chance. More recent news indicates that less may have changed than one would have wished. The tensions between the north and the south of the country re-emerged as clearly as ever during the spring 2005 events and have since then continued to play an important role in politics. The new leadership has invested considerable efforts in re-establishing a strong grip over the country's public administration and security forces. However, within a year after the revolution, a state of "normalcy" has not returned into Kyrgyzstan's political life.

#### Selected indicators

Population: 4.89 million (July 2003 est.)	Official unemployment rate: (2000): 5.6 %
GDP: 2002: \$1.6 billion; 2001: \$1.5 billion	Capital City: Bishkek, situated in the Chui Valley at an altitude of 700-900m above sea level
GDP growth rate: (2001) 5.3 %	Official languages: Kyrgyz, Russian
GDP composition by sector: agriculture: 35 %; industry: 25 %; services: 40 %	Literacy: 97 %
Inflation rate: 2.1 %	Ethnic groups: Kyrgyz 52.4 %,

Sources: Auswärtiges Amt (2004); CIA (2004); Government of the Kyrgyz Republic (2002b); IMF / World Bank (2004, 13); United Nations Economic and Social Commission for Asia and the Pacific (2004).

An important step toward decentralisation of state powers was the establishment of local self-government executive bodies for clusters of villages in 1996. So-called *aiyl okmotu* (village administration) executive organs, accompanied by *aiyl keneshi* (village councils), were introduced. The functions of these bodies are described in more detail in the next section within the framework of the administrative system of the Kyrgyz Republic. This reform transferred management and ownership of social facilities to the new village governments. Similar steps established local self-government in cities between 1998 and 2001. This process culminated in 2001 in the first direct elections of heads of *aiyl okmotu* as leaders of local self-government. In 2000, a new post of Minister of Local Self-Management and Regional Development was established within the Government.<sup>52</sup> Although introduction of the post of a minister responsible for issues of local self-government shows significant political support for decentralisation affairs, it should be noted that this is a ministry without an apparatus of its own.

In 2002, laws and decrees with great significance for the lower levels of government were adopted on matters such as the status of representatives of local councils, on courts of elders and on the management of municipal property. First and foremost, the “Law On Local Self-Government and Local State Administration” provides more autonomy to local governments and clarifies the status and functions of their respective organs. The National Strategy “Decentralisation of State Administration and Development of Local Self-Government in the Kyrgyz Republic until 2010” was enacted in the same year. This comprehensive approach addresses many of the shortcomings of the Kyrgyz decentralisation process and includes an action plan with steps to be undertaken in the near future. In approving the National Strategy, the Kyrgyz Government has formally acknowledged the principles of decentralisation and defined the goals that are still to be

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52 This position is currently held by Tolobek E. Omuraliev, who also was the director of the State Agency on Registration of Rights to Immovable Property (the so-called Gos-Registr). GosRegistr today plays a significant role in issues of local self-government, as land registration issues define, to a large extent, business activities, and thus the tax base of local governments.

achieved.<sup>53</sup> The four main approaches in the strategy are related to i) political and administrative decentralisation, ii) financial and economic decentralisation, iii) municipal service improvement and vi) social mobilisation and civil society consolidation. Some, although by no means all, of the steps envisaged in the National Strategy have been addressed or are currently in the process of being implemented.<sup>54</sup>

According to the Kyrgyz Government, one of the most pressing problems is a weak legal framework that is inadequate to serve as a basis for decentralisation.<sup>55</sup> The National Strategy therefore proposes to revise existing legal acts and to elaborate and adopt several new ones. However, the question is whether the numerous decrees and regulations mentioned above are still insufficient to regulate the decentralisation process or whether the real problem is their implementation. Still, the most recent and important step in regulating the basis of local self-government has been the promulgation, in September 2003, of the “Law on the Financial and Economic Basis of Local Self-Governments.”

A chronology of the most important steps in the process of decentralisation is included in the annex.

### 3.2 Institutional reform in the post-Soviet context

Research on the decentralisation process in the Kyrgyz Republic has to consider factors that are specific to the conditions encountered in post-Soviet transition countries. Three aspects are particularly relevant:

- *The problem of structural legacies:* Successful reform today has to take into account the social, economic and political structures of the vanished Soviet system. Persistent inherited features served to constrain the transition of the successor states. These burdens from the past form an initial stock of rules, networks, organisations and insti-

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53 The National Strategy has been developed in close co-operation with UNDP. UNDP focuses on sub-national levels of government to support the implementation of actions following the National Strategy.

54 One example is the declaration of “2004 – Year of social mobilisation and good governance.” Many activities at village level can be found in this context, above all including micro-credit schemes for small business development.

55 Government of the Kyrgyz Republic (2002a, 6).



tutions that haunt reform in the post-socialist context.<sup>56</sup> A number of relevant features of the Soviet system are summarised in Box 3.

- *The significance of informal rules:* Informal rules in transition contexts represent a legacy of action-guiding perceptions and interpretations developed and established under the old system. “Formal rules may change overnight, but informal constraints do not. Inconsistency between the formal rules and the informal constraints [...] results in tensions that typically get resolved by some restructuring of the overall constraints – in both directions – to produce a new equilibrium.”<sup>57</sup> There are positive and negative aspects of informal rules in transition situations. Informal rules can preserve important social functions neglected by reform. However, persisting networks of social co-operation are informal structures with the potential to undermine present reform efforts.<sup>58</sup>
- *Incidences of path dependence:* Path dependence is a metaphorical expression for “the constraints that past events and structures impose on present and future policies.”<sup>59</sup> The conception of path dependence highlights two important factors for institutional change that are relevant to reform processes. First, there are points along the development path at which decisions, once taken, are costly to reverse. Decisions at these so-called critical junctures rule out alternative options for the future. Secondly, unintended consequences of decisions may stem from institutional choices that have been made in specific contexts in the past. These choices may be preserved in current institutional configurations, even though the context may have changed.

Structural legacies, informality and path dependence play a role in many aspects of political reforms in the post-Soviet context, and they thus have to be considered for the examination of the decentralisation process in the Kyrgyz Republic as well.

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56 Cf. Eggertsson (1994).

57 North (1993, 39).

58 Cf. Aligica (1997).

59 Aligica (1997, 49).

**Box 3: The political system of the Soviet Union**

The administrative system of the Soviet Union and its constituent republics was structured into village-, town-, *raion*-, *oblast*- and republic administrative levels. The entire political decision-making process in the Soviet state system can be described as a multi-subordination of the local level. It followed a strict top-down logic: Decisions of elected councils (soviets) could be overruled by decisions or decrees of super-ordinate soviets or executive committees (ispolkomy) whose members were actually appointed either by higher-level administrations or by the Communist Party. This pattern of dual subordination of elected assemblies to executive committees of the same level and to soviets of the next higher level could be observed for all layers of state subdivision.

Armed with the ideology of Marxism-Leninism, the Communist Party of the Soviet Union claimed to hold the ultimate solutions for social advancement. It exerted direct influence on both elected soviets and executive committees through directives and instructions, by nominating candidates for elections, by nomination of officials and by awarding the most significant posts to party members. Furthermore, the party dominated the most important socio-economic decision-making processes throughout all stages: the planning and budgeting of the economy. The biggest part of centrally planned production in the Soviet Union was realised within large-scale staple production units in agriculture (kolkhos/sovkhos) or in big industrial complexes for industrial goods and commodities. Most local social and infrastructural services were provided not by local authorities but by state-owned enterprises under direct supervision of the central ministries.

Source: Mildner (1996)

### 3.3 Institutional framework

The formal institutional framework that has emerged in Kyrgyzstan as a consequence of past decentralisation reforms is characterised by a particular administrative structure that has arisen out of political and administrative decentralisation as well as by the implications of fiscal decentralisation for local finances, i.e. for local sources of income and the budgeting process. This section discusses, in turn, the two aspects of administrative structure and local finance.

### 3.3.1 Administrative structure

Currently there are three layers of sub-national administration in the Kyrgyz Republic.

- 7 *oblasti* (regions), the city of Osh, and Bishkek city (the capital)
- 45 *raiony* (districts) and 10 “*oblast subordinate*” cities
- 494 *aiyl okmotu* (rural communities or groups of villages) and 10 “*raion subordinate*” cities

Structural legacies from Soviet times can be observed in the formal political structure of many successor states: the terms and demarcations of administrative units at the sub-national level (*oblasti*, *raiony*, *oblast-subordinate cities*, *raion-subordinate towns*) have been inherited by most post-soviet countries. In the Kyrgyz Republic, an additional layer of *aiyl okmotu* was introduced in 1996. The regional division of the country was also restructured after independence, with the creation of more *oblasti* than the country had before.<sup>60</sup>

In August 2005, after he had taken office as newly elected president, Kurmanbek Bakiyev announced that the *oblast* layer of administration division was to be eliminated by 2007.

In the highly centralised Soviet system the competencies of bodies at different layers were extremely limited. In the independent Kyrgyz state, more authority was given to the different levels. But above all, the hierarchy of administrative layers used to play a crucial role in inter-governmental financial transfers: Funds were passed through *oblast* and *raion* state administrations down to local communities, leading to significant financial dependence of the *aiyl okmotu* on the upper levels.

Basically, two types of sub-national administrative bodies can be distinguished at the different levels of administration: bodies of local state administration and bodies of local self-government.

Local state administration bodies exist at the *oblast* and *raion* levels. They are headed by appointed governors (*oblast*) and akims (*raion*). Local state administrations receive and execute instructions from the national level.

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60 Namely, Batken oblast and Bishkek have been added.

They have departments corresponding to a number of the central government ministries.<sup>61</sup> Thus, the hierarchy of instructions from the national level is reflected in the local state administrations.

Both *oblast* and *raion* state administrations have locally elected councils (*keneshi*) that formally have the right to confirm governors and akims *nominated by* the president. In fact, however, these councils have little oversight over policy-making or control over the respective state administrations. Their main function is to approve the budget, while they have no resources for an effective oversight of the budgeting process or its implementation.

In contrast to local state administrations, bodies of local self-government are legally independent of the central government. They are accountable to the population of their respective jurisdiction.

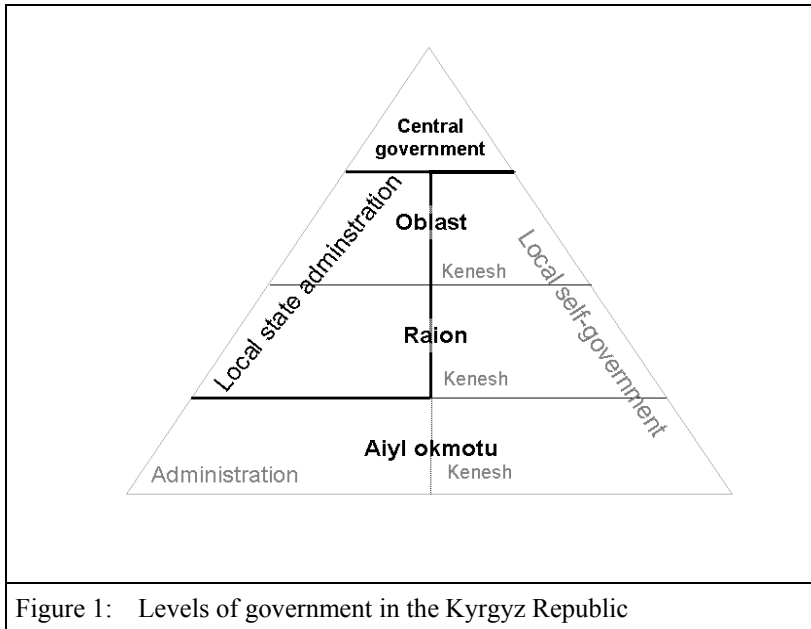


Figure 1: Levels of government in the Kyrgyz Republic

61 Tordoff (1995, 500).

Formally, *oblast* and *raion* councils are considered bodies of local self-government, alongside administrations and councils (*keneshi*) at the third tier of government – i.e. *aiyl okmotu* and *raion*-subordinate cities. In actual fact, it is only this third tier that comes close to what is understood internationally to be local self-government in both the functional and territorial sense.

In its Russian usage, the (Kyrgyz) term *aiyl okmotu* describes clusters of several villages subsumed under the same executive and representative bodies. This unit has not grown historically but was created in 1996 with the introduction of bodies of local self-government. In the strict sense of the word, *aiyl okmotu* in Kyrgyz means village administration.

As mentioned above, in the official Kyrgyz administrative structure, the *keneshi* of all sub-national levels of administration are considered bodies of local self-government.<sup>62</sup> According to the legislation, *keneshi* are important participatory bodies within the administrative system of the Kyrgyz Republic, as their members at all levels are directly elected in open and competitive elections by the population for a term of five years. Any Kyrgyz citizen has the right to run for election to bodies of local self-government.<sup>63</sup> The number of local *kenesh* members varies according to the population of the respective territory:

- 30 to 45 members in *oblasti* and Bishkek,
- 15 to 30 members in raiony and oblast-subordinate cities,
- 11 to 21 members in raion-subordinate cities and
- 9 to 21 members in *aiyl okmotu*

Local *keneshi* are supposed to convene at least four times per year. More sessions can take place upon request. *Keneshi* are divided into thematic commissions, e.g. on the budget, on social issues, cultural or educational matters. In common sessions, the commissions report to all *kenesh* members about their activities.

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62 Organisational and legal foundations for the activities of local *keneshi* are regulated in Chapter 2 of the law “On Local Self-Government and Local State Administration” of 2001.

63 See e.g. interview 650Int 18/03/04; Interview 830Int 31/03/04.

The *keneshi*'s most basic responsibility is to address affairs of local significance.<sup>64</sup> Besides budget approval, one of their main tasks is to approve and control the implementation of social and economic development plans developed by the respective administrations for *raion* and *oblast*. At *aiyl okmotu* level, *keneshi* “[...]are the bodies dealing with the drafting and approval of the strategy for development of the territories. They issue basic legal normative documents of local communities, make decisions on major life-sustenance issues of local communities.”<sup>65</sup> At this level, the executive bodies are subordinate to the *keneshi* who are directly involved in decision-making. Other issues within the competence of *keneshi* include:

- Drafting and monitoring programmes on social protection and economic development
- Approving budgets and monitoring budget execution
- Introducing local taxes
- Regulating communal property management

Finally, *keneshi* have the right to issue a vote of no confidence against their respective head of administration. However, only at the *aiyl okmotu* level can the head of administration be directly voted out of office by the assembly. At the *raion* and *oblast* levels, the ultimate decision rests with the president, who can decide at will whether to replace a certain head of local state administration or not.

Overall, a study on local self-government commissioned by the US-funded Urban Institute Bishkek concludes that

*“in practice oblast and raion councils have little oversight over policy-making and no control over the state administrations which de facto govern on behalf of the president.”*<sup>66</sup>

The following sections present the different levels of administration in the Kyrgyz Republic and their basic functions.

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64 Government of the Kyrgyz Republic (2001, Art. 2).

65 Hanns-Seidel-Stiftung (2002, 53).

66 Urban Institute Bishkek (2001, 1).

### *Oblast level*

The state administration at *oblast* level implements policies of the president and the central government in the regions. The main functions of the *oblast* state administrations are: <sup>67</sup>

- To formulate the budget for the *oblast* as well as programmes for local social and economic development and to monitor and co-ordinate their implementation. Both budgets and development plans have to be approved by *oblast keneshi*.
- To distribute funds to *raion* level and to balance territorial accounts in order to mobilise additional financial resources from the state budget and other sources.
- To exercise control over compliance with environmental protection acts by enterprises, organisations and institutions and to monitor the use of land and natural resources, sanitation standards and health care regulations. Regarding land issues, the *oblast* level appears to be the decision-maker of last resort.<sup>68</sup>
- To maintain law and public order.
- To borrow and to lend on a contractual basis.

### *Raion level*

*Raiony* and *oblast*-subordinate cities are the organisational units below the *oblast* within local state administration. The mayors of *oblast*-subordinate cities are elected by *keneshi* from a pool of candidates nominated by the President of the Kyrgyz Republic<sup>69</sup>. As in Bishkek, there are plans to extend their autonomy and to have the mayors directly elected in the near future and to declare the *oblast*-subordinate city administrations to be bodies of local self-government. Like governors on *oblast* level, the heads of *raion* state administrations (*akim*) are appointed by the president. *Akims* exert significant influence and power within the administrative system: many people directly turn to the *akim and his administration*, not to the respective bodies of local self-government, to have their problems addressed.

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67 Alymkulov / Kulatov (2001, 539–540).

68 See e.g. interview 830Int, 31/03/04.

69 Government of the Kyrgyz Republic (2001, Art. 35).

As mentioed above, the general responsibilities of *raion* state administrations correspond to those of the *oblast* state administrations, limited to their particular territories. Social and economic development plans are drafted within the *raion* state administration, based on statistical information from the lower level of *aiyl okmotu*. As on *oblast* level, these plans as well as the budget have to be approved by *raion* councils (*keneshi*).

Some functions, however, are unique to *raion* level:<sup>70</sup>

- To ensure social protection of the citizens and to ensure minimum standards, e.g. in health care. This includes unemployment registration and policies<sup>71</sup>.
- To maintain local infrastructure.
- To provide economic, social, cultural and legal services to the *aiyl okmotu* level
- To provide technical and legal assistance to civil society organisations such as condominium associations or interest groups.

One major problem of the Kyrgyz administrative system is that *oblast* and *raion* state administrations basically fulfil these same functions for their corresponding level, the *oblast* having the oversight over activities on *raion* level and co-ordinating service provision and programme implementation.<sup>72</sup> The “Law on Local Self-Government and Local State Administration” of 2001 does not specify the functions of *oblast* or *raion* state administrations, so that duplications are common and intransparent divisions of functions prevail.

Very few responsibilities are unique to the *oblast* level of state administration, mainly regarding the transfer of finances down to the *raion* administrations, as financial flows are organised top-down from one level to the next. By the same token, the top-down distribution of funds, again, down to *aiyl okmotu* is of major importance, giving the *raiony* significant influence and control over activities at the local level. Our research shows that tax inspection, sanitation regulations, land registration (“Gosregistr”) and architectural authorities at *raion* level are of great importance for economic development at the local level.

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70 Alymkulov / Kulatov (2001, 541). This brief overview is not exhaustive.

71 See e.g. interview 140Int, 02/03/04.

72 See e.g. interview 390Int, 12/03/04.



When asked to specify differences between *oblast* and *raion* functions, one interviewee in a responsible position at *raion* level replied:

*“We basically have the same responsibilities. The oblast is on a higher level. The oblast fulfils the tasks on oblast level and we fulfil them on raion level.”* (Administration, interview 450Int, 15/03/04)

In view of this systemic duplication of functions, current discussions among experts and within government about elimination of one of the two levels seem to indicate that this would be a substantial step towards more effective state organisation.<sup>73</sup> Such a reform could help to avoid much bureaucracy. But within the state administrations there is much resistance to these suggestions because people fear for their employment and influence.<sup>74</sup> However, it is important to note that neither *oblast* nor *raion* levels are mentioned in the latest version of the constitution (April 2003).<sup>75</sup> This leaves room for possible reforms of the current system.

#### *Aiyl okmotu* level

In contrast to the *oblast* and *raion* levels, the *aiyl okmotu* level is the real level of local self-government. The administrations at this level are directly accountable to the *keneshi* and the population and not primarily to the central government. Their heads (*glava*) are directly elected by the local population for a period of four years. The heads of *aiyl okmotu* also chair the *aiyl kenesh*. Their position is thus clearly one of local self-government. In the case of the Bishkek city mayor and the mayors of the *oblast*-subordinate cities, the classification is not as clear. They are neither mere recipients of instructions from the central government nor do they have as much autonomy as the administrative bodies of local self-government. The candidates for these offices are appointed by the president and the respective *keneshi* elect one of them<sup>76</sup>. However, for the near

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73 Statements and suggestions in our interviews included the elimination of either *oblast*- or *raion*-level state administration, or even both, or direct election of governors or *akims*.

74 Interview with the counterpart from the IISS, Bonn, 17 Dec. 2003.

75 See e.g. interview 060Int, 23/02/04; Constitution of the Kyrgyz Republic (2003).

76 Government of the Kyrgyz Republic (2001, Art. 36).

future there are plans to have free elections for these authorities and thus make them exclusive bodies of local self-government.<sup>77</sup>

*Aiyl okmotu* own municipal property and can use the income generated through that property for the realisation of their own local programmes and public services.

Key functions of these administrations include:<sup>78</sup>

- Drafting the local budget
- Formulating draft social and economic development plans for their territory, to be approved by the *aiyl kenesh*
- Managing municipal property and land from the Redistribution Fund, and exercising control over the use of agricultural land
- Managing financial resources
- Providing and maintaining local infrastructure, including health care, education facilities, communal transport and roads, sports and tourism
- Managing various issues of citizenship, such as identification and family status
- Collecting taxes and duties.

Transfer of responsibilities to the *aiyl okmotu* administration has been a significant step in the national decentralisation process. In Soviet times, the *kolkhoz* and the *sovkhoz*<sup>79</sup> were responsible for delivering social services such as health care, pensions and benefits to their employees. After the breakdown of the Soviet system, however, the state-owned enterprises were privatised or closed down. They no longer provided any services and people turned to the local authorities. Enabling the administrations to deal with these demands was one of the reasons for the central government to create the system of local self-government.

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77 Urban Institute Bishkek (2001, 3).

78 Alymkulov / Kulatov (2001, 545), Government of the Kyrgyz Republic (2001); various interviews.

79 *Kolkhoz* and *sovkhoz* were agrarian production units in the Soviet system. Although de facto both were state-owned enterprises, the term *kolkhoz* stands for collectively organised enterprises and the term *sovkhos* for state-organised enterprises.

Although the bodies of local self-government are supposed to be independent within the framework of their own competences, *raiony* and *aiyl okmotu* are closely connected to each other in a hierarchical way. Kyrgyzstan's 2001 National Human Development Report commented on this issue quite unequivocally:

*“The ambiguity of this issue means that state bodies continue to interfere in the work of local self-government bodies on a regular basis, since, according to the constitution, organs of local self-government are accountable to state bodies in the execution of their delegated powers.”*<sup>80</sup>

In addition to the administrative and representative bodies mentioned so far, the 2001 “Law on Local Self-Government and Local State Administration” gave full legal recognition to a new set of local self-government bodies at the level below *aiyl okmotu*. Recognising the need for self-government at the grassroots level, citizens received the right to establish so-called bodies of territorial public self-government within their town or village. These voluntary associations of citizens work within their defined territory to implement “initiatives of local significance.”<sup>81</sup> Community organisations of public self-government are participatory associations which can obtain legal status by registration with the *aiyl kenesh*, to which they are also accountable for their activities.<sup>82</sup> With these bodies of territorial public self-government, a grassroots level body has been established that can be assigned certain functions by *aiyl keneshi*, *aiyl okmotu* administrations and local state administrations. According to the law, they can also obtain their own finances, non-residential premises and material resources on a contractual basis.

Among the participatory associations that can be registered as bodies of territorial public self-government are various committees, women's councils and condominium associations (Box 4) typical of local civic engagement in Kyrgyzstan. These local associations and councils are supposed to play an important role on the village level as participatory channels dealing with issues of every-day life.

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80 UNDP (2001, 39).

81 See Government of the Kyrgyz Republic (2001, Chapter 6).

82 Registration with the Ministry of Justice is another possibility for territorial self-government bodies to obtain legal status.

**Box 4: Condominium associations**

Condominium associations are remnants of the Soviet system. They are organised around neighbourhoods or other territorial units and have the possibility to influence decisions that concern their particular area and living conditions. For example, some of these associations can grant construction permits or are responsible for the maintenance of housing estates. The members of condominium associations are inhabitants of these respective territories. Therefore, condominium associations represent the inhabitants' interests, implement improvements and defend residents' rights. Members of these associations can participate in meetings of *keneshi* if issues of their territory are on the agenda.

One further body at the local level of the Kyrgyz administrative system demands special attention: the so-called *kurultai*.

*Kurultai* are people's assemblies at various territorial levels where interested citizens can meet members of the respective *kenesh* and administration representatives. Issues of local importance are discussed in a *kurultai* and possible recommendations developed. According to our interviews, representatives from the *raion* state administration more often than not also take part in local *kurultai*, sometimes even the *akim*. *Kurultai* are held at least once a year, but both the population and members of the *keneshi* can demand a *kurultai* any time the necessity to discuss urgent issues arises. Examples may include insufficient implementation of the development plan, infrastructure problems, impeachment of administration members, etc. Whether these meetings are completely open to the public depends on local provisions.

According to the legislation, these assemblies are a possibility for participants to actively take part in and influence policy- and decision-making. In cases involving severe problems, the community or the *kenesh* can convene assemblies with the respective administrations. Furthermore, these assemblies serve as consultative meetings where the administrations present their ideas and development strategies for the future. The population then has the possibility to comment on the suggestions. *Kurultai* are often organised on the local levels but there are also some that include members of the national government. The importance of *kurultais* and issues of participation in them are analysed in Chapter 5.1.1.

### 3.3.2 Local finance

Fiscal decentralisation ranks very high on the agenda today. Most reform efforts concerning decentralisation in the past decade have failed to combine delegation of functions with adequate financial resources at the lower levels of Kyrgyzstan's administrative system. Therefore, a significant gap exists between the functions that local governments have to fulfil and the financial means needed to fund these tasks. Ineffective and unpredictable budget allocations significantly limit the ability to establish budgets as the main strategic instrument for planning, implementation and monitoring of public programs at the local level.

The problem of inadequate budget formulation processes and of insufficient transparency in the inter-governmental finance system was addressed by government in the "Law on Financial and Economic Basis of Local Self-Government," effective since January 2004. This law clarifies the fiscal relations between the state and local self-governments and establishes some degree of financial autonomy for the latter. It also clarifies, to some extent, arrangements for local taxes. But most importantly, the law limits the ability of *raion* state administrations to interfere in the fiscal affairs of local governments.

Prior to enactment of the law, fiscal legislation only used the terms "republican" and "local" (meaning all layers below the central administration), and in practice fiscal bodies were part of a rigidly hierarchical structure that was dominated by the Ministry of Finance. Thus, according to local experts, significant political resistance to decentralisation can be found within the Ministry of Finance, which fears losing oversight over local expenditures.<sup>83</sup> De facto, each level of state administration has determined revenues and expenditures for the next lower level. Legal provisions that would provide clarity for inter-governmental finance and more local control over planning budgets have been widely ignored. Inter-governmental fiscal transfers were thus subject to political pressures exerted by local officials. The clarification of the fiscal relationship between the state and local self-governments provided by the new law is, therefore, a major step forward, although the extent to which this new law will contribute to a more strategic and open budget policy formulation is a matter

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83 See e.g. interview 090Int, 25/02/04.

that remains to be seen in future budget cycles. However, since insufficient funding at the local level seems to be one of the main impediments to local governance, the budgeting process and local revenues, as defined by the new law, will be analysed in more detail in this section.

### *Local sources of income*

Generally, local budget revenues consist of own-source taxes and non-tax revenues on the one hand and of taxes and revenues allocated at the national levels as well as transfers and grants on the other.<sup>84</sup> According to the new law, revenues in surplus of expenditures will now remain within the local budget, whereas previously they had to be handed back to upper levels or resulted in lower financial allocations. Ideally, this should provide local governments with incentives to manage resources more efficiently and to effectively collect taxes and other funds.<sup>85</sup>

**Own-source taxes** are taxes that can be established and collected locally. These revenues are protected from withdrawal to higher level budgets by the new law.<sup>86</sup> Only a few of the sixteen taxes that can be adopted by *aiyl keneshi*<sup>87</sup> appear to be significant. Most of these taxes are of marginal importance: A local community without any tourist infrastructure does not need any casino tax, even though the community has the right to impose it. The importance of local taxes for the funding of public services by *aiyl okmotu* administrations is thus relatively low: local taxes account for only around 9 % of local income.<sup>88</sup> Furthermore, revenues from own-source taxes are subject to fluctuation due to local economic instability. By contrast, taxes most often referred to by interviewees as significant sources of income to local budgets included the 4 % retail tax as well as land taxes and the tax on means of transportation – none of which falls under the

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84 Government of the Kyrgyz Republic (2003, Art. 3,1).

85 Government of the Kyrgyz Republic (2003, Art. 3,4).

86 Government of the Kyrgyz Republic (2003, Art. 3,2).

87 The full list of taxes includes: hotel tax, tax on citizens who grow flowers for sale, tax on health resorts, tax on private service industries, tax on entities using national symbols, tax on advertisements, casino tax, tax on Kyrgyz tourists, tax on garbage removal, parking tax, auction and lottery tax, tax on dog owners, capital gains tax. See: Tax Code of the Kyrgyz Republic, Chapter 32.

88 United Nations Economic and Social Commission for Asia and the Pacific (2004, 16).

exclusive competence of local self-governments.<sup>89</sup> As far as the land tax is concerned, 90 % remains within the budget of *aiyl okmotu* and the other 10 % goes to the *raion* budget. Until 2003 these figures were exactly opposite, with an *aiyl okmotu* sometimes having only 5 % of the land tax at its disposal.

**Non-tax revenues** to local budgets include revenues from management and renting of communal property or land from the Redistribution Fund<sup>90</sup> as well as revenues generated through communal services for cost recovery.<sup>91</sup> Local self-governments can also generate capital revenues by selling assets or other property. They have the right to sell land, buildings, equipment, inventory stock, securities, etc.<sup>92</sup> Our study showed that income generated by communal property management, especially by renting land to farmers or small businesses, forms an important part of local budgets. This means on the other hand that *aiyl okmotu* with little land at their disposal face significant difficulties in generating non-tax income and are dependent on allocations from the upper levels to cover even basic expenses such as salaries for administration staff.<sup>93</sup>

**Taxes allocated at the national level** are shared between the national level and local bodies (including *oblast*, *raion* and *aiyl okmotu* level) according to a fixed formula of 65 % for the national and 35 % for the local level, while being collected locally. While the value-added tax is a uniquely national tax, income tax, corporate income tax, excise (on domestic goods), revenues from obligatory patenting, and common taxes on

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89 The tax rates for different types of land (irrigated, farm or non-farm land, for example) are fixed by *raion* administrations.

90 In 1994, 75 % of land was distributed to Kyrgyz citizens, with 25 % remaining state property, managed locally through the Redistribution Fund by *aiyl okmotu* administrations. However, many problems have occurred concerning land distribution – some people were left out or did not receive the share they were entitled to. To solve this problem, land redistribution nowadays is exercised according to three categories: ordinary citizens living on the territory of the respective *aiyl okmotu* are entitled to 0.27ha of land, people working in public service receive 0.5ha and former members of *kolkhoz* or local dignitaries have a right to 1ha of land.

91 Government of the Kyrgyz Republic (2003, Art. 5).

92 Cf. Tulundieva (2004).

93 See, e.g., interview 430Int, 13/03/04.

small businesses are shared taxes.<sup>94</sup> Until now, the 35 % share of the local level was further subdivided into 23 % for the *oblast* level and 12 % for the lower bodies. The latter included the *raion* as well as the *aiyl okmotu* level, which made local communities dependent on what share of this 12 % was transferred to them in reality through the *raion* administration (the share often being subject to bargaining).<sup>95</sup> With the new law on local finances, bodies of local self-government at *aiyl okmotu* level receive a share of national taxes that is fixed for a period of three years. This amount will be a share of what has been collected locally, an incentive to actually collect local taxes. Although these rates may still be small in terms of total amounts, they represent a reliable income share for local budgets and could therefore significantly contribute to medium-term planning abilities of local governments.<sup>96</sup>

**Transfers and grants** to local budgets from the national level include so-called *categorical grants* allocated by central government to perform specific functions as defined annually in the Law of the Republican Budget. Their aim is to ensure funding for state-guaranteed programs at the local level and to bring revenues in line with expenditures for a minimal level of services. Categorical grants are used to cover running costs and for the payment of salaries in socially significant sectors such as health care as well as of pensions and benefits. The formulae for estimation of categorical grants are still not decisively defined, but qualitative indicators were recently introduced to calculate them. The calculation thus includes number of pupils per school, sickness rate and number of people living in a local area.<sup>97</sup> Once the formulae are effective and transparent, categorical grants will form a predictable stream of revenues to local budgets. Generally, the grant share of local budgets should be as small as possible. In reality, however, the share of categorical grants in the local budgets is comparatively high. In 2000 the sum of categorical grants from the state budget made up 45.3 percent of total local budget expenditures.<sup>98</sup>

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94 Cf. Tulundieva (2004).

95 See e.g. interview 420Int, 13/03/04.

96 See e.g. interview 040Int, 23/04/04.

97 USAID is actively assisting the Kyrgyz government to define the formulae used to estimate categorical grants. See also: United Nations Online Network in Public Administration and Finance (2004).

98 Alymkulov / Kulatov (2001, 553).



*Equalisation grants* are used to co-finance the budgets of local governments. Their aim is to close the fiscal gap within a certain region between tax collection and non-tax revenue potentials on the one hand and finance needs of local communities on the other hand. Unlike categorical grants, equalisation grants can be used directly by the local administrations according to their own decisions and priorities. The funds for equalisation grants come from the national budget. The amount of equalisation grants is determined without any formula. Equalisation grants are, in fact, the difference between forecast revenues and the required expenditures.<sup>99</sup> In 2000, equalisation transfers accounted for 9.4 percent of total local budget expenditures.<sup>100</sup>

### *The budgeting process*

Two aspects make local budgets an important issue for the topic under discussion in this study: firstly, they are supposed to be elaborated with the participation of bodies of local self-government, namely the *keneshi*. Draft budgets are also discussed in *kurultai* meetings. Secondly, the size of the budget determines the approach to and extent of locally provided public services, including measures for local economic development. The new “Law on the Financial and Economic Basis of Local Self-Government” makes a significant contribution towards more independent budgeting at the local level. In 2004, the new procedures for the budgeting process were set to become effective for the first time. Until then, the budgeting process was mainly characterised by instructions from the Ministry of Finance and significant scopes for the upper levels to interfere in the formation of local budgets. Typically, the procedure was as follows:

Instructions on budget formation are given by the Ministry of Finance. Budgets are planned bottom-up at each level, starting with the *aiyl okmotu*. Each following level introduces budget plans from the lower level into its own draft. Statistical information of all kinds is collected within *raion* and *oblast* state administrations. However, the collection of statistical information and the formulation of budgets as well as of social and economic development plans seem to reflect, in many cases, still prevalent procedures of the Soviet system. We found that neither budgets nor develop-

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99 Cf. Tulundieva (2004).

100 Alymkulov / Kulatov (2001, 553).

ment plans reflected strategic visions for long-term planning. Rather, in some localities development plans contained detailed production figures for single companies in a manner akin to Soviet-style planning.<sup>101</sup>

*Kenesh* budget commissions discuss the draft budgets in their sessions and in co-operation with the administration. Members of the budget commissions in *raion keneshi*, for example, include state administration staff and tax inspection as well. The elaboration of local budgets, thus, could be one clear example of co-operation between bodies of local state administration and local self-government. *Keneshi* can propose amendments to the budget plans. After approval of the budget law by the *Jogorku Kenesh*, the national parliament, funds are distributed top-down according to budget plans approved in this law. To ensure balancing, upper levels of administration now have the possibility to intervene in the expenditure side of draft budgets of lower levels. So-called “control figures” issued by the Ministry of Finance define maximum expenditures for each level. *Oblasti* define minimum standards for certain expenditures (heating, electricity).

The possibility of upper-level administrations to alter draft budgets of the lower levels represents a significant interference in policy-making by lower levels of government. As one interview partner said:

*“The law says that the budgets should be formed bottom-up. Life shows that it is going the other way round: The budgets are formed top-down.”* (Administration, meeting 360Meet, 11/03/04)

### 3.4 Summary of constraints to local self-government

The analysis of the Kyrgyz decentralisation process has revealed that progress has been made in several fields but that a balanced and sustainable new division of labour, competences and resources has yet to be found. A number of problems are related to the very design of the reform. Even more important, however, is the insufficient implementation of existing legislation due to unwillingness on the part of some actors and a lack of confidence on the part of others. Below, we summarise the most obvious problems:

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101 Strategic planning, in the sense of long-term development, can mainly be found in communities and cities which had donor assistance available to them.

i) *Lack of functional assignments*

- There is no clear distinction between the functions at oblast and at raion level. Duplications of functions are common.
- Keneshi and local administrations are not truly independent of state authorities, and their actual decision-making competencies are very limited.
- Existing regulations concerning the delegation and delimitation of competencies have not been satisfactorily implemented.
- Furthermore, nepotism and corruption pose an additional obstacle to transparent and democratic structures.

ii) *Lack of finance at the local level*

- Grants and transfers to lower levels are insufficient to pay even the salaries of local administrative staff. At the same time, own-source revenues of local self-government at *aiyl okmotu* level are often of such minor importance for local budgets that they do not even suffice to close the gap between tasks assigned by the central government and the actual funds transferred for the purpose. Thus, bodies of local self-government have no financial autonomy. This situation limits the ability of the *aiyl okmotu* to decide on and implement their own policies and makes them wholly dependent on transfers from the upper levels.
- Although grants and transfers will be calculated according to transparent formulae in the near future, the problem now is that funds are passed top-down through all layers of administration. This implies the possibility that not all funds actually reach the bottom layer on time or in their full amounts.
- Interview partners provided incoherent and even contradictory information on the budgeting process, even those in responsible positions at *raion* or *aiyl okmotu* level. Thus, there seems to be a lack of information on existing procedures. It is questionable whether and to what extent the procedures set out in the new law on local finances will be followed more rigorously in the future.

iii) *Limited capacities at local level*

- At the *aiyl okmotu* level and also at *raion* and oblast level, staff is not adequately qualified to fulfil all the tasks connected to local self-government.
- The national decentralisation strategy provides for delegation of numerous functions to the local levels. Yet, far too few training measures for local government staff are actually available.
- Many *aiyl okmotu* focus on trainings on how to apply for donor projects. This does not contribute to capacity building for administrative tasks.

iv) *Disproportionate power of local state administration*

- The central government has not managed to effectively reform local state administration since the stakeholders in the authorities are very influential in their respective regions and districts. In particular, there is strong resistance within the local state administrations to hand down power and to accept the possible elimination of either the *oblast* or the *raion* level.
- Tasks are transferred to the *aiyl okmotu* level arbitrarily or according to informal rules, and not in keeping with the principles of subsidiarity.
- The *keneshi* at *raion* and *oblast* level are close to insignificant because they have no means to control the administrations or to make them accountable.
- Even though *keneshi* are influential at *aiyl okmotu* level, the corresponding administrations have hardly any means to implement locally elaborated development plans due to their lack of finance. Thus, even though *keneshi* take part in decision-making, they only have limited influence on policies.
- From the Soviet period, people are acquainted with top-down decision-making processes that they could not influence. Many people still have the expectation that decisions will be taken elsewhere, and they do not feel responsible for taking part in the making of public decisions.

The above-listed problems are well-known to the Kyrgyz government as well as to international donors. Both sides have made efforts to improve the decentralisation process. Whereas the government plans to develop

new legal frameworks, some international donors are focusing on assisting the bodies of local self-government in coping with their new responsibilities. Box 5 gives an overview of the relevant donor activities.

**Box 5: Decentralisation programmes of international donor agencies**

In recent years, several international aid agencies have established programmes to support decentralisation in the Kyrgyz Republic. The most important of them are UNDP, Soros Foundation Kyrgyzstan, USAID and the World Bank. A common theme in all of these programmes is the effort to assist local communities to cope with the tasks confronting them as a consequence of decentralisation.

German bilateral development cooperation with the Kyrgyz Republic (as with other countries in Central Asia) concentrates on promotion of economic reforms and introduction of a market economy. Decentralisation is not an explicit topic in the bilateral cooperation between the two governments. Of the German agencies active in Kyrgyzstan, only the Hanns Seidel Foundation has been running a programme in the field of decentralisation for several years. Most recently, the German KfW development bank has initiated procedures to co-finance the World Bank Village Investment Project.

Nevertheless, many of the bilateral projects being implemented under the current strategy are closely connected to problems of local governance and the impact decentralisation has on the making of economic policy at the local level.

**UNDP**

The United Nations Development Programme (UNDP) is operating the most influential programme in the field of decentralisation, one that is being implemented in close cooperation with the Kyrgyz government. Dating back to 1998, the “Decentralisation” programme has recently been combined with another project, “Preventive Development in the South,” to form the Political and Administrative Local Governance Programme. The programme consists of three components:

1. Strengthening the potential of local governments
2. Helping the central government to create a conducive political, legal and economic environment for decentralisation and the development of local self-government
3. Preventive development in the South of Kyrgyzstan

Within the first component, the programme concentrates on pilot projects in a limited number of local communities. In 2003, these included 30 *aiyl okmotu* selected from 10 different *raiony* in 6 *oblasti*. In the pilot communities, the main objective is to improve the capacities of both local self-government bodies and community organisations and to establish more effective cooperation between them. The main approach chosen is the so called “social mobilisation” strategy, an effort to encourage citizens and community organisations no longer to wait for the state to solve their problems but to become active themselves. At the same time, local authorities are encouraged to regularly involve these organisations in the process of formulating annual local development plans and to support them in other ways. The social mobilisation approach is backed up with instruments like human resource development, local information centres and a micro-credit programme.

Under the second component, UNDP was closely involved in the formulation of the 2002 “National Strategy of Decentralisation.” Currently, besides continued improvement of national legislation, one of this component’s main aims is to disseminate examples of good practice from the local pilot projects to non-pilot regions.

The final component, “Preventive Development in the South,” combines instruments of social mobilisation with mechanisms of early warning. It helps local communities in the Ferghana Valley area to address potential sources of ethnic, social or other conflict early on and in this way to avoid outbreaks of violence.

### **Soros Foundation**

Soros Foundation Kyrgyzstan, a national foundation under the umbrella of philanthropic institutions established in many transition countries by American-Hungarian businessman George Soros, is the most prominent non-governmental donor agency in Kyrgyzstan. Since 1997, Soros Foundation Kyrgyzstan has implemented a “Public Administration Programme.” The programme operates in the context of the multinational Local Government and Public Service Initiative launched by the Open Society Institute Budapest. The main purpose of programme activities is “strengthening the capacity of the local self-governance system in the Kyrgyz Republic.” The instruments designed to achieve this aim include capacity development for representatives of local governments, promoting self-help in resolving local problems, and “developing positive dialogue” between government bodies and civil society organisations. In 2004, the programme’s activities focussed on three directions:

1. Strategic planning of local development and local policy-making in rural and urban communities of Kyrgyzstan.
2. Development of a local government in Bishkek city: strategic planning and local policy-making
3. Creation of a public policy institute in Kyrgyzstan

Soros Foundation is one of the main grant-giving agencies for local initiatives and local research institutes in Kyrgyzstan.

### **USAID**

The United States Agency for International Development (USAID) is the most important bilateral donor organisation in Kyrgyzstan. USAID's general focus is on strengthening democratic principles, improving public health, and fostering economic development.

On behalf of USAID, the Urban Institute Bishkek – an affiliate of the US-based Urban Institute – is implementing the programme “Local Government Initiative in Kyrgyzstan.”

Generally, the programme concentrates on improving the effectiveness of local government at the *raiony* and *aiyl okmotu* level. To achieve this, the programme seeks to bolster the capacity of administrations to deliver public services. Furthermore, the programme aims at developing and reinforcing relationships between local government and citizens. Different tools have been created to implement the aims of this programme. One important instrument is Public Budget Hearings.

Although the programme focuses on local government, other target groups, even at the national level, play an important role in its implementation. At the national level, the government and the parliament are provided support in fostering clear functional assignments, clear revenue assignments and a transfer system that strengthens the autonomy of local government. Local officials are given advisory support within the scope of this programme. Training and technical assistance are used to improve skills in various fields, including management of financial issues and communal property.

In addition to these specific target groups, the programme's focus is on creating networks and partnerships between different actors. The development of a public-private working group to plan and implement improvements in basic service delivery is one example of this comprehensive approach.

### **World Bank**

In 2003, the World Bank launched its Village Investment Project (VIP) in Kyrgyzstan. This project focuses on development at the *aiyl okmotu* level. Besides its overarching aim of contributing to the alleviation of rural poverty, the project aims to achieve three different objectives.

1. Improvement of governance at the local level
2. Strengthening of the provision of essential services
3. Support for private sector- led growth.

In detail, the project seeks to support group-managed small and medium-sized enterprises, income- and employment-generating investments in village infrastructure and local authorities in achieving key development objectives at the local level.

The project provides technical and financial support for community-based initiatives. Funds are provided in the form of small grants to *aiyl okmotu*, which forward these grants into demand-driven community or group investments, which in turn generate off-farm employment and create additional income. Furthermore, initiatives that alleviate serious deficiencies in local infrastructure are also eligible to receive these grants. With a view to managing VIP grants, Local Investment Councils are established at the *aiyl okmotu* level to coordinate the activities of village investment committees that each participating village is required to set up.

Another component is capacity building. In particular, the members of participating communities, local government officials and partner NGOs are target groups of vocational training. The emphasis lies on issues such as good governance, strategic planning, micro-project implementation and social mobilisation.

On behalf of the World Bank, the Community Development and Investment Agency is carrying out this project in co-operation with local governments and local community groups. The project is designed to run until 2008 and has a budget of around 15 million US dollars.

In 2004, the German KfW development bank considered co-financing the VIP with an additional 8 million euros. Pending approval, this engagement was expected to get underway in 2005.

### **Hanns Seidel Foundation**

With a view to backing up the decentralisation process, the German Hanns Seidel Foundation, affiliated with the German conservative party CSU, is working in the field of vocational training in the Kyrgyz Republic. The focus of the foundation's



engagement is short-term training for employees of all local government levels, which is provided in close co-operation with the Kyrgyz Academy of State Management.

Starting in 2002, this co-operation first concentrated on developing textbooks for short-term training measures. The training programme started in September 2003 and gave participants the possibility to improve their skills in issues of local management. For 2004 the goal was to train around 750 participants in three different modules. The topics of these modules include financial, economic, legal, and organisational issues of local government. In the future, strategic planning and social mobilisation will be included in these short-term training measures

Sources: Pravitel'stvo Kyrgyzskoi Respubliki / PROON (2003); Soros Foundation Kyrgyzstan (2001); Soros Foundation Kyrgyzstan (2004); Soros Foundation Kyrgyzstan (2003); USAID – Information Document; World Bank (2003b); Meeting 993Meet, 02/04/04.

*“What kind of support? So far, they have been asking us for help! For money, for seeds, to help poor people by giving seeds for free.”*

(Businessman, interview 160Int 02/03/04)

## 4 Local economic development in the Kyrgyz Republic – Policies and measures

This chapter will discuss local economic development policies and measures on the basis of our field study. The summary of constraints to local self-government in the last section already revealed the weak position of *aiyl okmotu* in the ongoing decentralisation process in the Kyrgyz Republic. The results presented in this chapter underline that picture. Due to lack of financial resources and skilled specialists, *aiyl okmotu* have their possibilities to design and implement local economic development policies. In contrast, the *raion* administration is the crucial administrative level regarding measures in support of local economic development.

We consider as local economic development all measures by local administration that affect business activities. Therefore, obstacles for businesses caused by local administrations are defined, figuratively, as negative local economic development measures. Numerous obstacles that hamper business activities and negatively affect local economic development were

identified during the course of our field study. Many of the obstacles are connected with administrations and administrative structures. These obstacles are discussed in Section 4.1.

At the same time, many measures supposed to promote local economic development can be identified at the local level. These measures are discussed in Section 4.2. Examination of ‘positive’ and ‘negative’ local economic development measures leads to the question of whether and to what extent the ongoing decentralisation process in the Kyrgyz Republic has an impact on policy-making in local economic development. This question will be analysed in Section 4.3.

#### 4.1 Obstacles to business activities caused by local administrations

This subchapter will discuss observations on obstacles to business activities that are directly or indirectly connected to administrative procedures or structures. These obstacles vary in their effect on the local economy as well as with regard to the level of local government that evokes them. The obstacles fall into two categories: Direct administrative failures and structural problems caused by unresolved issues in the process of decentralisation.

##### *Uncertainties over land property rights*

Administrations at the local level are insufficiently able to solve problems of land property rights. Problems derive from deficient processes of land privatisation since independence that have not led to a transparent redistribution of land. Furthermore, renting land from municipal holdings for business purposes is problematic.

In our interviews, businesspeople and farmers told us about various problems caused by uncertainties over property rights. One problem is that people may hold entitlements on paper but nevertheless be left without land. The reason why they do not receive their land from the *aiyl okmotu* remains unclear for most of them. Sometimes the territorial distribution of land was effected so vaguely that it is not exactly clear which land belongs

to whom.<sup>102</sup> This problem appears to be due to inexact measurements of land before the plots were distributed. Local authorities have hardly any possibilities to resolve these problems.

Other issues of communal property management, however, can be resolved by local governments, or at least influenced by them.

*“We went to the aiyl okmotu because a person rented land from them for five years. But the next year it was given to someone else. [...] There are many cases like this. [...] The administration is the reason for these kinds of obstacles.”* (Donor, interview 540Int, 16/03/04)

The registration process seems to be another problem: although business-people, farmers and people who want to start farming have a lot of ideas and initiatives, they cannot realise them without having gone through lengthy registration processes.<sup>103</sup>

Problematic situations can also occur for large corporations like the successor organisations of *kolkhozes*. These farms, still organised as collective enterprises, have to struggle to keep a reasonable territorial distribution of their farming land, since many single owners withdraw their patches from the farm. After a while, a patch-work area is left which makes efficient operations extremely difficult and cuts into existing economies of scale.<sup>104</sup>

Furthermore, competences seem not to be clearly divided between *aiyl okmotu* and *raion* level. Even if responsibilities are strictly separated according to the law, many businesspeople are unaware of it, or they try to gain influence on higher levels to achieve their goals.<sup>105</sup> A clear distinction of responsibilities and a better information policy concerning competencies in the field of land property laws would be desirable.

### *Bribery in business interactions with administration*

The problem of bribery is widespread in Kyrgyzstan's administrative system. All stakeholders know about this problem, and especially business-

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102 See e.g. meeting 201Meet, 02/03/04.

103 See e.g. meeting 201Meet, 02/03/04.

104 See e.g. interview 160Int, 02/03/04.

105 See e.g. interview 970Int, 02/04/04.

people, NGOs and international donors do not hesitate to point it out as one of the biggest problems in the Kyrgyz administrative system. A recently published World Bank and IMF paper confirms this impression: The frequency of bribery is still regarded by Kyrgyz businesspeople as a more serious problem than in other Central Asian countries.<sup>106</sup> In our interviews, even administration members pointed out the omnipresence of this issue.

*“It has become part of life that you have to pay bribes to accelerate the process in the administration.”* (Raion administration, interview 490Int, 15/03/04)

For many businesspeople bribery associated with inspections conducted by the tax, fire and sanitary departments constitutes a significant problem. Tax inspectors in particular enjoy a dubious reputation.

*“If tax inspectors come you always have to pay bribes. [...] Tax inspectors come and they will always find violation and make you pay for it.”* (Businessman, interview 980Int, 02/04/04)

Many small enterprises complain that tax inspectors come too often to check their books. As a result they hamper the daily business of enterprises, and they often stay for several days unless and until they are paid off. Theoretically, there is a regulation that tax audits are to take place only once a year. The practice of taking bribes not only damages businesses’ ability to prosper. It also hinders the “normal” interaction between businesspeople and administration that is needed to work together on local economic development measures.

*“Peasants turned to me and asked me how to export their goods they produced. I asked, why they did not turn to state officials. They think, they will not help them. And they think, they have to pay more and give some bribes.”* (Expert, interview 030Int, 20/02/04)

### *Inadequate information about business rights*

Another obstacle closely linked to the issue of bribery is the fact that businesspeople are often not informed by the *aiyl okmotu* about laws and regulations that concern them. Laws and court decisions are not made public by qualified staff. This poses an obstacle to businesspeople because they

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106 See World Bank / IMF (2004, 26).

are not made fully aware of their rights and are furthermore not sufficiently able to defend them in cases of conflict. It also opens up room for discretionary behaviour in administrations. Both aspects result in uncertainty for business activities.<sup>107</sup>

#### *Lack of specialists at aiyl okmotu level*

Most likely, the problem of inadequate information about business rights is associated with a lack of qualified specialists at *aiyl okmotu* level. *Aiyl okmotu* staff members often do not know their functions and responsibilities.

*“People working in local self-government mainly have an education in humanities but they should better have political and economic education. We need to prepare specialists. [...] If we will have more educated specialists, the work will go better and faster.”* (Expert, interview 010Int, 20/02/04)

Due to a lack of competence, local economic development measures are not implemented effectively. Consequently, *aiyl okmotu* staff is not able to work in the best interest of the business community.

*“I was in a grant committee, where we revised grants for two aiyl okmotu. Public organisations were supporting those projects but the representatives of aiyl okmotu were standing aside, they didn’t participate because they didn’t understand their interest in that.”* (NGO, interview 330Int, 04/03/04)

A lack of capacities at the *aiyl okmotu* level in matters concerning strategic economic planning, business laws, budgeting processes and managerial skills poses an obstacle to businesspeople. Particularly small enterprises and business starters are negatively affected by this, as bigger companies can more easily make use of internal expertise to compensate for this deficit.

The lack of specialists at local level is an issue related to structural deficits arising from an incomplete process of decentralisation. Generally, qualified specialists have no incentives to work at *aiyl okmotu* level, because salaries are low and there is little room at this level to craft durable policies. Adding to this problem, *aiyl okmotu* staff are not properly motivated to take part in training measures.<sup>108</sup> There are training measures for local

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107 See e.g. interview 081Int, 25/02/04.

108 See e.g. meeting 993Meet, 31/03/04.

administration members, which are financed in part by international donors. However, many staff members of local administrations have no incentive to take part in these seminars, because they seem to have no relevance for participant careers. After attending these vocational trainings, no promotion or increase of salary can be expected. Therefore, those who participate in seminars are usually selected by their superiors in a purely administrative procedure, one not driven by the interests of the employees themselves.

### *Business contributions to public infrastructure measures*

Many businesses are frequently asked to contribute to public infrastructure measures. This includes financial or in-kind contributions which cannot be borne by local budgets. In ways similar to the lack of specialists at *aiyl okmotu* level, this fact is to a large extent a structural problem attributable to insufficient financial decentralisation.

*“We have really bad roads in our Aiyl. They asked me to help fix it, and I gave my machines and helped them. And also there’s an aiyl school. I helped to repair it with my finances.”* (Businessman, interview 770Int, 22/03/04)

Larger enterprises are often asked for broader donations where a certain sum of money or special technical equipment is needed. Small businesses generally contribute to social activities or events, for example giving donations for *Veterans Day*.<sup>109</sup>

In their minor form as voluntary donations, those contributions may be seen as forms of corporate commitment to local communities. Very problematic, however, are donations which cannot be refused and therefore lose their good-will character. Some interviews raised doubts as to whether these contributions can still be termed voluntary.

*“Q: What does the administration ask from you? Can you give some more examples? A: Different things, e.g. to be a sponsor and give support for public holidays. Q: Are you supporting the administration? A: The administration has more rights, if you don’t help them, they will do something. E.g. the tax inspection asks for some support for their holiday, or the police station asks for support for their holiday. Q: So do*

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109 See e.g. interview 610Int, 17/03/04.

*you get pressure? A: It's not actually pressure but voluntary pressure (laughs).*" (Businessman, interview 160Int 02/03/04)

Whether voluntary or not, the practice of directing some parts of business resources into public tasks - in addition to regular taxes - detracts from the overall volume of productive investments. These additional "taxes" on the one hand entail benefits for the local community. On the other hand, they diminish the chances of local economic impulses initiated by new private investments as well as creation of additional jobs. From an economic point of view, practices of this kind tend to hamper a region's overall economic development.

## 4.2 Local economic development measures, their importance and the process of their creation

This section presents the empirical findings on measures taken at *raion* and *aiyl okmotu* level to actively support local businesses. These measures vary in their relevance and effect on the local economy. Furthermore, *aiyl okmotu* and *raion* administrations have different possibilities to stimulate local economic development. This section will also present and discuss the range of measures available for the purpose.

### *Acting as a matchmaker in the process of obtaining credit*

Helping local businesses to meet their credit requirements is an important measure of local governments. Where *aiyl okmotu* and *raion* administrations are involved in the process of providing credits, they mostly act as a matchmaker between businesspeople and credit suppliers. They seek to work together with co-operatives, NGOs and international donors that can help with business financing. One step is to advise businesspeople on where they may find credit opportunities. Often there are local credit unions or international micro-credit programmes operating nearby, although local businesspeople may not be aware of the fact.

Sometimes, credit unions are also established with the support of local administrations. For instance, authorities may provide premises for businesses or support credit unions, shortening the registration process. Even

the *aiyl okmotu* may be involved in the initiation process, contributing some funds to enable a credit union to start working.<sup>110</sup>

Small agricultural businesses are provided assistance by local administrations in the form of seed or fertilisers rather than of direct funding.

*“We do not buy seeds, we take them for credit. And then in autumn when farmers have their harvest, they return us money and then we return it to the organisation we took the seeds from.”* (Aiyl okmotu administration, interview 870Int, 31/03/04)

For farmers, this model of assistance has a certain attractiveness because it enables them to avoid the procedures required to apply for credit. Nevertheless, this model of support is subject to some conditions on the part of the administration. First, the *aiyl okmotu* must have spare money to buy seed. Second, the *aiyl okmotu* needs qualified staff to calculate the risks for the administration and to negotiate the terms with farmers and seed factory.

Obviously, micro-credit programmes and local government assistance are of minor importance for larger businesses. Those enterprises generally have their own experts to obtain information on credit.

### *Provision of premises and land for businesses*

One very widespread and effective local economic development measure at the local level is provision, from municipal property, of land and premises to businesses.

For example, functional buildings not used by public administration may be rented to businesses. *Aiyl okmotu* hold most of the land that remained state property after privatisation. Many functional buildings are part of this municipal property. Therefore, *aiyl okmotu* are the main actors in this measure.

We can observe different models for provision of premises and land. Generally, businesspeople turn to administration and ask for premises and land for rent. During the field study, however, the criteria according to which municipal property may be rented did not become clear to us.

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110 See e.g. interview 840Int, 30/03/04.



To support local economic development, small businesses or farmers are sometimes provided premises and land free of rent. Sometimes, they are simply required to pay discount rent.

*“Aiyl okmotu gave a building, a former club that was empty for a long time, without rent for the first three months to a hairdresser and a sewing business.”* (Aiyl okmotu administration, meeting 201Meet, 02/03/04)

This measure is supportive for small and especially for start-up enterprises, which have to make many investments before they see any profits. For many start-up enterprises, exemption from rents is an important step in reaching the break-even point quickly and establishing their business on a permanent footing.

In addition, *aiyl okmotu* may support businesses indirectly by providing premises to business-supporting NGOs or micro-credit institutions, in this way fostering the creation of business infrastructure. *Aiyl okmotu* may furthermore make rooms available for businesspeople or meetings of co-operatives.

*“The aiyl okmotu gave us the premises for our NGO and also for the aiyl okmotu bank, the micro credit agency.”* (NGO, interview 780Int, 26/03/04)

If decisions are reached quickly on provision of premises and land, without any bureaucratic obstacles and bribery, this may be an appropriate tool to support the local economy. This tool depends, of course, on the existence of municipal property. Moreover, providing property for rent is a source of independent income for *aiyl okmotu*. According to the current law, *aiyl okmotu* can keep all revenues from municipal property management for their own budgets. Therefore, those local authorities which have much land property are less financially dependent on upper levels than those which have very little land property.

### *Provision of training and seminars*

There are a variety of training measures for businesspeople that can be observed at the local level. Topics include business financing, applying for grants, rights of businesspeople and technical consultancy.

Here, as opposed to the local economic development tool previously mentioned, the *aiyl okmotu* does not play a significant role. For seminars and training, the *aiyl okmotu* rather serves as a networker with suppliers of seminars such as international donors or local NGOs. The *raion* level has more capacities in terms of institutional, human and financial resources and therefore often initiates its own measures.

Some organisations that provide agricultural support services are based at the *raion* level and are partly funded by the *raion* administration. They provide training measures and advisory services for small farmers, for example on how to grow tomatoes or sugar beet.<sup>111</sup>

Other training possibilities are offered by international donors. GTZ and Helvetas provide several kinds of seminars, which are realized in co-operation with local authorities.

### *Helping to network*

To help businesspeople to collectively articulate, express and pursue their interests is an important local economic development measure of local governments. Assistance in networking can take the form of regular business meetings with administrations, establishment of councils and departments for small and medium-sized enterprises (SME) in administrations, or support for business associations. Most of these measures are initiated at *raion* level. As in the case of the measure of providing training and seminars, the *raion* level has the capacities it needs in terms of experts for business support.<sup>112</sup>

Three different types of networking were observed in the field. First, administration calls together small and large enterprises in order to listen to their problems and to discuss possible solutions for them.<sup>113</sup> Secondly, representatives of businesses and local authorities come together in official business councils. The councils are co-ordinated by the *raion* administration and are generally presided over by the *akim*.

*“The council works for lobbying interests of businessmen and protecting their rights. The main goal is to strengthen the co-operation be-*

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111 See e.g. interview 900Int, 31/03/04.

112 See e.g. interview 250Int, 03/03/04.

113 See e.g. interview 150Int, 02/03/04.

*tween representatives of state power and representatives of businesses.” (Raion administration, interview 250Int, 25/03/04)*

Thirdly, local governments collaborate with business associations to strengthen the ability of businesses to pursue their interests. The main potential advantages of associations are protection of business rights and the possibility of engaging in lobbying. Many businesspeople complain about exaggerated numbers of inspections that take place and hamper their business. In such cases, the business association can be informed and asked to check with the responsible departments of local administration to see whether these inspections are legally correct.

Another factor that links authorities and business associations is the drafting of new laws. Business associations seek to influence the law-making process by providing their own proposals from a business point of view. Larger associations also offer legal support to their members. Nevertheless, these advantages mostly benefit larger businesses that can afford to pay the membership fees.<sup>114</sup>

#### *Offering direct access to officials*

One measure that may prove important to local economic development is for officials in local administrations to follow “open door policies” that enable businesspeople to gain direct and personal access to them. Businesspeople appreciate being able to come into direct contact with heads of administration. “Open door policies,” our research found, can take several forms.

One regular and widespread form of access is consultation hours for citizens. Interestingly, although all heads of the different administrations had relevant signs on their doors, neither administrative staff nor businesspeople mentioned this option when asked for possible channels of participation. Other institutionalised forms of access to administrations are “hot-lines” or “question hours.”

It is doubtful whether businesspeople make (much) use of these possibilities. Many businesspeople stated that they did not really have access to decision-makers and that administration did not pay attention to them. It

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114 See e.g. interview 420Int, 12/03/04.

can be assumed that there is an information gap between administration and businesspeople concerning institutionalised forms of direct access.

*Raion kenesh* members sometimes emphasise their role as contact persons for businesses, yet very few businesspeople stated that they regularly ask for their assistance. At *aiyl okmotu* level many businesspeople and farmers do not even think of turning to administrations, because they have no confidence that their problems will be solved by the *aiyl okmotu*. In Section 4.3, this problem will be discussed in more detail.

### *Devising and implementing development plans*

In talking about local economic development measures, several administrative officials stressed the importance of socio-economic development planning. Yet, very few businesspeople seem to recognize this as an instrument that effectively supports their activities. Most interview partners knew nothing about socio-economic development plans. Experts expressed rather critical views on local government development planning. Above all, they questioned the viability of existing plans and the drafting process.

*“They produce their socio-economic plan over night and have it approved by the kenesh, it is some sort of wish-list, not viable, like to increase the GDP by 5 % or reduce the number of poor families from 460 to 390.”* (Expert, interview 060Int, 23/02/04)

In talking about development plans, many officials reverted to the vocabulary and the concepts of planned economy. The socio-economic development plans often reveal soviet-style thinking, which seems to prevail in most local authorities as far as these plans are concerned.

*“Economics start with our development plans. [...] Our last plan was over-fulfilled with 111 %.”* (City Administration, interview 140Int, 02/03/04)

*“We approve the plan and control it the whole year and we come back to the numbers and check whether the results match the numbers given quarterly.”* (Raion administration, interview 170Int, 02/03/04)

Because most of those plans are far removed from modern approaches to local economic development, they do not bear significant results. But there are also efforts to make socio-economic development plans a viable instrument of local economic development. However, long-term communal development planning that includes strategic approaches to strengthening

the local economy can only be observed in those *aiyl okmotu* that have received support by donor agencies for this purpose.

### *Main findings*

This section has presented and discussed the most important obstacles facing businesspeople as well as existing local economic development measures at *aiyl okmotu* and *raion* level. It turns out that many businesspeople have to contend with obstacles that hamper their business activities and are caused by local administration. In contrast, very few businesses benefit from local economic development measures initiated by *aiyl okmotu* or *raion* administration.

The following subchapter will analyse these positive and negative issues that affect local economic development with respect to the different roles played by *aiyl okmotu* and *raion* administration in the context of the ongoing decentralisation process. As already emphasized, the *aiyl okmotu* have no more than very limited capacities to actively influence local economic development. The *raion* administration is generally the key agent in these areas thanks to its larger financial resources and better-qualified staff.

## 4.3 The impact of decentralisation on policy-making in local economic development

Having described the most significant local economic development measures and obstacles to business activities at the local level, we will now examine these measures and obstacles from the perspective of the ongoing decentralisation process in Kyrgyzstan. Empirical research conducted among experts, businesspeople, public sector officials (local state administration and local self-government bodies) and NGO points to critical aspects of the decentralisation processes with regard to policy-making in local economic development. Capacities at the local level are not sufficient to effectively carry out the policies proposed in the literature (see Section 2.2).

Chapter 3 has demonstrated that the processes of political, administrative and fiscal decentralisation are incoherent. Administrative and fiscal decentralisation are lagging behind the achievements of political decentralisation. This means that democratically legitimised decision-making at the

local level is, on the one hand, not supported by clear assignments of tasks and responsibilities. On the other hand, decision-makers do not have actual decision-making power because of their lack of finance. This chapter analyses the impact that this incoherence has on local economic development measures as well as obstacles to businesses at the local level.

First of all, it is necessary to distinguish between the *aiyl okmotu* and the *raion* level. The two are in quite different positions as regards the carrying out of policies of local economic development.

Policy-making at the *aiyl* level is faced with a number of impediments: elected bodies of local self-government may well have the mandate to design and implement local economic development policies that match local problems, priorities and resources. However, they have neither clear-cut functional assignments nor the necessary budgets to do so.

Local state administrative bodies, on the other hand, play a different role. At the current stage of the decentralisation process, the local state administrations at the *raion* level have retained financial equipment, institutional capacities and decision-making power that may be seen as significant for the design and implementation of local economic development policies. Thus, of both administrative levels, only the *raion* level has the means to effectively support local businesses<sup>115</sup>. However, *raion* administration is further detached from the local population and lacks a political mandate.

#### 4.3.1 Local economic development at *aiyl okmotu* level

The analysis of policy-making in local economic development at the *aiyl okmotu* level will first examine the main limitations that constrain activities. In a second step, issues are highlighted that point to opportunities open to decision-makers.

##### *Limitations*

The most important issues limiting the scope of LED competences at the *aiyl okmotu* level are related to lack of finance, ambiguous accountability and inadequate training.

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<sup>115</sup> See e.g. interview 200Int, 02/03/04.

At first glance, the analysis is straight and simple: without sufficient funds it is not possible for *aiyl okmotu* to design and implement meaningful policies of local economic development.

*“The head of aiyl okmotu is elected by the people. But when it comes to budget and law-making, he has no power. He is tied because he was elected and not appointed, and he has not many fellows. The paradox is, that he is elected by the people, but if he doesn’t have financial support somewhere behind him, he doesn’t have the power.”* (Expert, interview 120Int, 01/03/04)

*“Mayors promise anything to their citizens to get elected, but they don’t have the resources to meet their commitments.”* (Expert, interview 100Int, 26/02/04)

Accordingly, the *aiyl okmotu* are unable to fulfil their mandate to conduct policies of local economic development. In fact, heads of local self-government face a situation in which they are not only unable to design local economic development policies but are also unable to fulfil genuine public tasks of service delivery, e.g. the maintenance of roads.

*“There is no money in the local budget and people are demanding impossible things from you, like fixing the roads without any money.”* (Head of *aiyl okmotu*, interview 870Int, 31/03/04)

As described above (4.1), lack of finance at the local level becomes a direct obstacle to businesses whenever they are forced to compensate for it: i.e. when businesses are asked to make contributions to carrying out public tasks.

Due to lack of fiscal sovereignty, heads of local self-government are still accountable to upper levels, as an official at the *oblast* level reported:

*“The aiyl okmotu are elected now. They don’t listen to anybody, they have elected heads. They don’t listen to the akim, they don’t listen to anybody, right? But how can they truly not listen if tomorrow I can or cannot give them money!... They call us, they come here, and say: Help! Help! Even if 100 % elected the head of aiyl okmotu, he will still go to the akim and to us for help! They are dependent.”* (Official at oblast level, interview 430Int, 13/03/04)

This poses a problem for the political credibility of elected heads of *aiyl okmotu*: according to the idea of political decentralisation, they should be held accountable for their actions exclusively by their electorate.

In addition, heads of *aiyl okmotu* are not sufficiently trained, and they are therefore uncertain of their roles and responsibilities. Living up to their responsibilities in local economic development would mean designing, implementing, monitoring and constantly improving mid- and long-term policies that include strategic components and target definitions. Instead, measures on *aiyl okmotu* level confine themselves to ad hoc and issue-driven solutions rather than forming part of comprehensive policies. This may serve to help select individual businesspeople, although the majority of them, i.e. overall economic development, will be left out in the process.

Aware of this set of circumstances, businesspeople have very limited confidence in and expectations towards the *aiyl okmotu* as far as their ability is concerned to solve problems and provide support for businesses. Limited confidence in turn leads to attitudes of non-collaboration among stakeholders, which makes it even more difficult to initiate local economic development policies.

### *Opportunities*

However, despite the obstacles mentioned above, there still seems to be some room for manoeuvre for the *aiyl okmotu*. Some of the measures presented in Section 4.2, e.g., do not require heavy financing. This applies for measures such as matchmaking efforts, information work and networking, e.g. to facilitate access to credits.

Likewise, social skills, creativity and commitment to businesses on the part of the *aiyl okmotu* staff are crucial factors that can make a difference in local economic development. These factors do not put a strain on local budgets, as qualities of individuals cannot be purchased. On the other hand, staff qualifications, which have to be acquired, naturally feed back into the dire financial situation of the *aiyl okmotu*, since the latter cannot afford to employ qualified staff or pay for qualification measures. The personnel policy of *aiyl okmotu* could take account of this, e.g. by placing emphasis on business experience and commitment instead of formal education in hiring staff.

Also, there are obstacles to business activities that could be removed by local administration without any major financial efforts - e.g. the design of an appropriate information policy for businesspeople (see Section 4.1).



Other measures, though limited in scale, may even serve to increase revenues for the *aiyl okmotu* budget. If *aiyl okmotu* manage the deployment of municipal property such as land and premises in a sensible way, they can serve a double-purpose: provision of business premises and land to businesspeople is an effective measure of local economic development. At the same time, *aiyl okmotu* can economise on their municipal property, which is one of their few sources of decentralised revenue.<sup>116</sup> However, local economic development is in conflict here with fiscal policy: the more business-friendly the measure - e.g. discounts on rents - the lower the revenues for the *aiyl okmotu*.

Some heads of *aiyl okmotu* have managed to compensate for their insufficient budgets by successfully applying for donor funds. Donor funding is sought out of economic necessity. But the fact that the *aiyl okmotu* thereby assume the role of applicants holds a potential to further undermine their political credibility as representatives. Instead of setting the political agenda of the *aiyl okmotu* exclusively according to needs and priorities of the electorate, policies have to be brought into line with donor agendas.

There are, nonetheless, some major positive aspects of donor involvement in local development. Intelligent attraction and prudent management of external funds, e.g., can be effective tools to support the local economy. And while there are issues of credibility involved in donor engagement, donor funding can also mean a prestige-plus for the heads of *aiyl okmotu*, with the electorate honouring their positive role in attracting funds. In fact, the head of *aiyl okmotu* in one of our sample *raiony* included the topic ‘attraction of funds from different donor organisations’ in his successful election campaign.<sup>117</sup>

#### 4.3.2 Local economic development at *raion* level

As in the previous sub-chapter, the analysis of policy-making in local economic development at the *raion* level will consider first the main limitations and then opportunities open to decision-makers.

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<sup>116</sup> See e.g. interview 060Int, 23/02/04.

<sup>117</sup> On the occasion of a meeting with him, the head of the *aiyl okmotu* Krasnaia Rechka presented his election campaign flyer.

### Limitations

The fact that its centrally controlled administration is at odds with the concept of local self-government is a general important handicap of the *raion* level. While the research conducted for this study has clearly identified the *raion*'s high potential in the field of local economic development, the existence of a strong and appointed local state administration at the *raion* level contradicts the aims of political decentralisation in the Kyrgyz Republic: proximity to local priorities, resources and problems *and, at the same time*, a political mandate safeguarded by sanctioning mechanisms open to the electorate. In contrast to this, the *raion* local state administration is held accountable by super-ordinate positions at the *oblast*- and national level. Lack of decision transparency and incidences of misuse of decision-making power (e.g. bribery in businesses' interactions with administration; see Section 4.1) create a certain distrust among stakeholders towards the *raion* local state administration, whose political performance they cannot sanction through elections.

Compared to the *aiyl okmotu*, the *raion* is in a better bargaining position in the budgeting process and higher in the hierarchy of the mainly top-down distribution of state finances. Still, like the *aiyl okmotu*, the *raiony* are financially and politically dependent on the higher level of administration, the *oblast*, which limits their ability to financially back long-term local economic development policies.<sup>118</sup>

And again in ways comparable to the *aiyl okmotu*, measures we observed at the *raion* level seemed to be rather ad hoc and issue-driven. More strategic approaches such as an institutionalised stakeholder dialogue based on business meetings or business associations are only just about to emerge.<sup>119</sup>

### Opportunities

But empirical research among the stakeholders shows that, compared to the *aiyl okmotu*, *raion* administrations are better equipped for almost all of the local economic development measures identified. At the current stage

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118 See e.g. interview 030Int, 20/02/04.

119 See e.g. interview 690Int, 19/03/04, interview 230Int, 03/03/04, interview 770Int, 23/03/04.

of the decentralisation process, the *raion* local state administration retains several key capacities necessary to successfully conduct local economic development policies. One reason for this situation is of course scale effects, i.e. it is more viable to offer training and seminars to a larger number of businesspeople throughout the *raion*. But the important role of the *raion* might also be due to structural path dependence (see Section 3.2.): actors and institutions at *raion* level were able to uphold the relatively strong position they held during Soviet times, despite numerous political reforms.

It is possible to identify four key capacities relevant to policy-making in local economic development at the *raion* level:

- *Decision-making capacity*: the personal resources of the *akim* (social skills, business experience, creativity and commitment to local development), together with his strong political position and the financial equipment of the *raion*, can make a big difference in policies of local economic development. Businesspeople highly value the problem-solving capacity at *raion* level, provided they can access institutions and key persons (e.g. the *akim*).
- *Institutional capacity*: associations, business and farmers' councils, and other organisations that have significance for local businesspeople are more often to be found at the *raion* level. Decision-makers at *raion* level can draw on these institutional capacities when they offer seminars, training and business meetings. Networking among businessmen, organisational help for credit unions, etc. can be more effectively facilitated through these institutions.
- *Retention of key positions*: a number of highly significant positions for business activities remain assigned to the *raion* level of administration. Examples are the state prosecutor, tax-, sanitary- and fire inspections, the architecture bureau, business registration, etc. Businesspeople therefore necessarily turn to the *raion* administrations in matters crucial to formal entrepreneurship (registration, tax issues).
- *Human resources*: many *raion* administrations employ specialists in fields of business promotion, SME promotion and tax issues. They have economic and statistics departments and sometimes training centres. In comparison, *aiyl okmotu* are far from able to employ staff dedicated to local economic development in this quality and quantity.

These key capacities explain why the *raion* assumes responsibility for most of the local economic development measures identified. Consequently, even if one can observe a certain distrust towards local state ad-

ministrative agencies among stakeholders, most of them would still agree that it is more the *raion* than the *aiyl okmotu* that is capable of solving their problems.

This confidence enables local economic development policies at *raion* level to rely on the collaboration of stakeholders.

#### 4.4 Local economic development: main findings

Concluding from the analysis of local economic development policies in the Kyrgyz Republic, it can be said: i) The hands of the *aiyl okmotu* are tied for many reasons. ii) The lead agent in local economic development is therefore the *raion*. iii) Efforts in local economic development more often take the shape of single and issue-driven measures rather than comprehensive and strategically designed policies. iv) Finally, the ability of administrations to successfully conduct local economic development policies depends on the stakeholders' readiness to collaborate. This readiness is found to be contingent on the credibility of local decision-makers and, as a consequence, on the financial backing of their decisions. This is why the *raiony*, rather than the *aiyl okmotu*, are able to draw on stakeholder collaboration in local economic development.

- i. It has been demonstrated in the previous sub-chapter that the democratically elected local governments that emerged from the decentralisation process at *aiyl okmotu* level lack the human and, most importantly, financial resources needed to effectively conduct local economic development policies.

One explanation for this is that the processes of administrative and fiscal decentralisation have not proceeded at the same pace as political decentralisation. Although the Law on Local State Administration and Local Self-Government provides a legal foundation for the delineation of functions between local self-government and local state administration, officials at *aiyl okmotu* level are in fact not given full responsibility for the fulfilment and the budgeting of their functions.<sup>120</sup>

*"Our power is limited and controlled. We still receive the budget from raion."* (Aiyl okmotu official, interview 650Int, 18/03/04).

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120 See e.g. interview 070Int, 24/02/04.

The factual distribution of finances between the levels of government does not allow for titles in *aiyl okmotu* budgets that could be assigned to local economic development activities. Because there are no free resources in the *aiyl okmotu* budget that could be used independently – more than half of the *aiyl okmotu* do not even receive the full amount of transfers from the national budget needed to fulfil delegated functions – they are unable to finance local economic development programmes.<sup>121</sup>

- ii. Typically, most local economic development measures are undertaken by the raion level of state administration. As outlined above, the capacities within its administrative departments place the raion in a position as the lead agent in this policy field. An official at a raion administration illustrates this for the aspect of human resource capacities that enable the raion to manage local economic development measures:

*“In our financial department we have three sub-departments. First, the budget department with four employees, the department of treasury and the department of economy with four specialists. We manage the economic situation throughout the whole raion. Our department deals with three main tasks: the income part of the raion, industry and agriculture.”* (Raion official, interview 460Int, 15/03/04)

- iii. Local government bodies do not yet seem to approach local economic development in comprehensive ways. Rather, most activities are issue-driven and address single problems at the individual business level. In theory, the “social and economic development plans” that the local *keneshi* have to approve on a regular basis (see Section 4.2) could be viable instruments of local economic development. In fact, local administrations and *keneshi* often do not appear to pay much attention to these documents. Neither do local businesspeople, who usually are not even aware of their existence. Lack of skills and training on the part of the administrations and *keneshi* plays an important role here. However, more long-term and strategic approaches to planning are beginning to gain importance in those communities that closely co-operate with a number of donor organisations which make strategic and action plans a precondition for funding in community development<sup>122</sup>.

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121 See e.g. interview 430Int, 13/03/04.

122 See e.g. interview 040Int, 23/02/04 and interview 060Int., 23/02/04.

- iv. At the *aiyl okmotu* level, an important resource needed by policy-makers to design and implement policies of local economic development is scarce: the readiness of stakeholders to collaborate in local economic development. As a result of the incoherence of political, administrative and fiscal decentralisation, the *raion* rather than the *aiyl okmotu* is trusted to solve business people's problems:

*"Of course I turned first to aiyl okmotu,...from them I received the permission that I can do my business close to Issyk-Atinski Telecom. But Issyk-Atinski Telecom just didn't want to be neighbouring with me. There is a law on local self-government, and according to that, for land on the aiyl okmotu territory we have to turn to aiyl okmotu. [But] for some problems sometimes the aiyl okmotu has not enough power. For arguable questions, we have to go to the upper level...So the raion had more power to influence."* (Businesswoman, interview 230Int, 20/02/04)

Empirically, a range of attitudes among stakeholders towards the role of administrations in local economic development can be observed, ranging from "hope" through "green light" to "frustration." From these attitudes, one can draw conclusions on the readiness of stakeholders to collaborate (see Box 6). Aspects of stakeholder trust and collaboration in local economic development are more thoroughly discussed in the next chapter, which examines participation in policies of local economic development.

<b>Box 6: Attitudes towards administrations among businesspeople</b>
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<p>Three rough types of attitude towards administrations can be distinguished among businesspeople: "Hope," "Green Light" and "Frustration." These can be exemplified with reference to three businessmen in Nookan <i>raion</i>. All three are giving statements on a <i>raion</i>-initiated business meeting with representatives of the administration. Two of them participated in the meeting.</p>
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<p><i>"Hope"</i>: collaboration with administration will benefit businesspeople.</p>
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<p>"Not just me, but all the businessmen who attended, liked this meeting, and it would be good to have this kind of meetings more often. I didn't know what to expect, I didn't even know what this meeting was about, before...."</p>
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<p>There was one businessman who stood up and said: people are afraid to complain. For instance, if the police comes and takes all your money, and if you complain on that, it will be worse. The prosecutor then said: 'see, now you shouldn't be afraid. And if you have any problems with police or tax inspections, just come to my office and we're going to see what's been done wrong or right.' All the businessmen were thankful for that. Q: What's your expectations for the next meetings? A: I think there will be many questions to the prosecutor. I think those who</p>
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didn't come to the meeting now will come. If somebody's protecting businessmen, they will go there they will go there [...] Q: Will you turn to the prosecutor with problems, or have you already? A: I never did, but in future I will!"

*"Green Light"*: non-interventionism is wished for.

"We don't have any complaints with the state administration here [...]. We pay taxes in time, we pay taxes to the social fund. Apart from that, we don't have a relation to the administration [...] Since I opened my business, the administration has never bothered me, I never even needed their help [...] It's my private business, and nobody has to help me, I have to work it on my own [...] Q: There was this business meeting on Friday, where you there? A: No, I wasn't invited. Q: Who was invited? A: I don't know [...]

I think in Kyrgyzstan, nobody messes with you, if you're trying hard and doing something, you just get green light for the development of your business [...] I have a small business, I don't need credits, so right now I don't demand anything from them. [...] I think that human beings should just try without needing anything extra."<sup>b</sup>

*"Frustration"*: bad experience with interventions and corruption, distrust towards administration prevails.

"Local powers don't care, local administration is totally corrupt! [...] We got used to this already! Before, we saw this only on TV, now we have it here! People don't trust each other anymore [...] People don't want to mess with administration [...] The local city administration are my age, they're trying to understand, but they are weak, they're on the lower level of power, they can't make any decision.

There are good laws, but no one controls the implementation, there is no public control [...] It's better to pay bribes than to do it legally. Give and take bribes is the way! Q: About corruption, what can be done? A: I think at some point, people will lose their patience. More people think like that. All people will get together for revolution.

[Here, we discovered that he had attended the business meeting that morning.]

[...] But if I had said something wrong [...] nobody said anything, everybody was afraid, the prosecutor was there. I hoped maybe there'd be some good people who'd shout out! [...] The prosecutor invited for this meeting, it was the first time. They are trying to make people believe that there is justice.

Maybe I went there to show them I don't trust them anymore. Q: What did you hope to get there? A: I had the desire to speak out, if I had held a speech, I would have said everything! In the capitalist system, everyone is on his own [...]"<sup>c</sup>

<sup>a</sup> Businessman, interview 770Int, 23/03/04

<sup>b</sup> Businessman, interview 750Int, 23/03/04

<sup>c</sup> Businessman, interview 710Int, 23/03/04

## 5 Participation in local economic development

The previous chapter has discussed the limitations and opportunities of local economic development. Based on these findings, this chapter analyses possibilities of and limitations to participation in decision-making on policies in the field of local economic development.

The decentralisation process created different channels of participation that are supposed to enable people to become “actively and significantly involved in all decisions affecting their lives”<sup>123</sup>. Section 5.1 presents these channels, analyses the different stakeholders’ perceptions of these possibilities to participate and looks at their strengths and weaknesses. Furthermore, our research indicates that there are other factors that have an effect on participation and that are not directly connected to decentralisation. Dominant among these factors are stakeholder attitudes that determine the way in which the new channels of participation are used (see Section 5.1.2).

Before proceeding with a discussion of channels of participation, it is useful to recall who the relevant stakeholders are in local economic development in Kyrgyzstan. They can be broken down into state and non-state actors. Among state actors, four types of stakeholders are relevant for local economic development: the *aiyl okmotu* (administration), the *aiyl kenesh*, the *raion* administration and the *raion kenesh*; non-state actors involved in, or concerned by, local economic development include local business-people, business associations, local NGOs and certain donor organisations. Box 7 and Box 8 present brief profiles of each of these stakeholders.

<b>Box 7: Stakeholder analysis – state actors</b>
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<p><b><i>Aiyl okmotu</i> (administration):</b> The <i>aiyl okmotu</i> could be expected to be very concerned with promotion of local development. Creating jobs for their electorate and generating local taxes would serve to substantially improve and strengthen the position of the elected authorities. However, the interest of the <i>aiyl okmotu</i> in promotion of local economic development differs from village to village. There are administrations that try to find ways to improve the economic situation of their territories. Some of them are quite creative, but their possibilities are limited by</p>
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123 BMZ (1999, 2).



very tight local budgets. Other *aiyl okmotu* do not consider promotion of local economic development to be their duty. Either way, systematic policies cannot be developed at the *aiyl okmotu* level. For this reason, the *aiyl okmotu* in most cases do not promote participation. A passive population will not demand the development of efficient socio-economic programmes.

***Aiyl kenesh*:** According to the law, the *kenesh* represents the population and is thus accountable to the citizens. In the field of local economic development it is supposed to be involved in the development of socio-economic programmes and to take a hand in solving problems of businesspeople. However, there are many *kenesh* members who are very passive because they have the feeling that they have little influence. Other, active members are able to solve some issues, but they do not have many possibilities to do so on account of the limitations at *aiyl okmotu* level. Accordingly, the *kenesh* is not a reliable instrument, since people do not know what to expect from it. The population turns to the *kenesh* to have its everyday problems solved. However, in the field of local economic development, the *kenesh* is considered to be neither responsible nor capable. Furthermore, people do not hold the *kenesh* responsible because, on the one hand, not much is expected from this channel of participation. On the other hand, people are not experienced with the use of democratic instruments and are thus not familiar with their rights.

***Raion administration*:** *Raion* administrations consider promotion of local economic development as their responsibility. At this level, most of the few existing measures are implemented. Although there are attempts to include the business community in decision-making, for example via business meetings, participation is limited at this level. The *raion* level is part of local state administration and is therefore accountable to the national government, whose interests it represents at the local level. For the *raiony* as part of local state administration, it is important to have a prospering economy on their territory to generate high revenues for the national budget. However, as regards popular participation in decision-making, this means that the population is in large measure reliant on the administration's good-will.

***Raion kenesh*:** Formally, the *raion kenesh* is accountable to the population. Its duty is to represent people's interests in the development of budgets and social and economic development plans at *raion* level. However, as the *raion* level belongs to local state administration, the *kenesh* does not have great influence. The administration is accountable to the higher levels of government and not to the population. For this reason, members of *raion kenesh* often simply approve the plans of the administration because they cannot effectively influence and change these plans. However, citizens do turn to members of *raion kenesh* with individual issues that they consider problematic, and individual *kenesh* members try to solve these issues.

## 5.1 Channels of participation

Participation of large parts of the population in decision-making – one of the aims of decentralisation – is in general not very widespread in Kyrgyzstan. However, the decentralisation process has created different channels which are supposed to enable people to influence the work of local authorities in different ways. These formal channels are *keneshi*, elections, *kurultai*, and condominium associations. Furthermore, official meetings between administration and businesspeople also serve as a channel of participation.

Nevertheless, these channels often do not function as intended, and this means that people's possibilities to influence decision-making are very limited. And this in turn has served to boost the importance of informal channels such as bribery and direct personal contacts with higher officials. Yet, participation based on these channels is not in line with the principles of participation presented in Section 2.2: equal participation of all stakeholders, transparent decision-making processes and accountability towards the population.

These deficits hamper the decentralisation process because participation is both a goal and a precondition for decentralisation. Some of the donors active in decentralisation policies have, therefore, created new channels of participation. The World Bank's Village Investment Project has established "Local Investment Committees" and the Urban Institute organises "Public Hearings." However, it is doubtful whether these additional channels in fact strengthen the general system of local decision-making. There is a danger that parallel structures may be created that would render the official system meaningless.

### 5.1.1 Formal channels of participation

To enable participation, it is necessary to create clear and structured possibilities for citizens to take part in the political process. In Kyrgyzstan several channels of participation have been established, as discussed in the following section. While these channels do have certain functions, it is also obvious that their influence is very limited. One reason is the fact that they do not function as intended. Another, even more important, reason is that these channels have only limited relevance because the level of gov-

ernment which they are supposed to influence is very restricted in its decision-making power.

### *Keneshi*

*Keneshi* at *oblast*, *raion* and *aiyl okmotu* level are considered part of local self-government (see Chapter 3). They have the function of councils or parliaments that control the administration. Potentially, the *keneshi* are the most important channels of participation in local economic development, due to the functions they have under the law. At the same time, *keneshi* at the *aiyl okmotu* and *raion* levels can also be considered stakeholders in local economic development in that their members have an individual and collective interest in the well-being of their communities (cf. Box 7). The *keneshi* are involved in the budgeting process as well as in the elaboration and approval of socio-economic development plans. If businesspeople actually turned to the respective *keneshi* and demanded that their interests be considered, they could have significant leverage.

#### **Box 8: Stakeholder analysis – non-state actors**

**Businesspeople:** Businesspeople are the prime addressees of local economic development. Therefore, they could be expected to have great interest in participating in decision-making in this field. However, many businesspeople, particularly owners of small businesses, have made the experience that they are powerless and that they are not taken seriously by the authorities. Since the formal channels of participation do not function satisfactorily, and many owners of small businesses do not have important personal contacts, their opinions and needs are not well considered in policy-making. Owners or managers of large businesses have the advantage that they are of greater interest to the authorities. They have the contacts needed to have their issues addressed. They are therefore not necessarily interested in the functioning of the formal channels of participation.

**Business associations:** Business associations are still a new phenomenon in the Kyrgyz Republic. It is therefore still too early to state definitely the direction in which they are going. However, they appear to concentrate on providing their members with information about legal regulations on the one hand and technical knowledge on the other. Lobbying, generally an important function of business associations, is not yet well developed. Some associations work in close cooperation with the administration. Many businesspeople do not consider these associations an option for themselves. Some people are sceptical as to the interests that these associations actually represent. Others simply do not see why should pay the membership fees.

**NGOs:** The NGOs working in Kyrgyzstan can be roughly divided into two types: 1. those that work closely together with administrations in community projects and 2. those that give legal advice and support to the population. Both types of NGO are of course reliant on the resources they need to do their work. To this extent, a stable economic situation is important for them. Furthermore, NGOs in Kyrgyzstan represent not mainly minority groups but large parts of the population that have to cope with the difficult economic situation. One overall objective of NGO work is therefore improvement of the economic situation.

1. Those NGOs that are in close relationship with administrations are often involved in providing hard and soft infrastructure. Although this can also be considered to be measures of local economic development, these NGOs do not work explicitly in the interest of businesspeople. A cooperative relationship between NGOs and administrations may have a favourable influence on local policies. However, such NGOs are in danger of being co-opted by administrations. Furthermore, many of these organisations rely on donor money, and they are thus forced to develop their activities in accordance with the offers of the donors, which are not necessarily in line with the demands of the people.
2. The other type of NGO, which provides legal advice and support to the population, has an indirect influence on the work of administrations. These organizations are able to monitor authorities to a certain extent, pressuring the latter to adhere to the laws and to treat people accordingly. Although NGO work is not yet widely known among businesspeople, it does contribute to limiting arbitrariness in bureaucratic procedures. Furthermore, some of these NGOs receive international donor support, and this increases their political weight.

**Donor organisations:** Until 2005 the Kyrgyz Republic was regarded as the most stable country in the region and was often cited as a positive example for the neighbouring countries. Many donors were for this reason active in the Kyrgyz Republic, despite a growing sense of frustration with an increasingly authoritarian polity. The March 2005 “Tulip Revolution” has only helped to reinforce the international interest in Kyrgyzstan. Interest in promoting decentralisation is notably high, not least because this concept is currently very highly valued in the international development community. In many areas, Kyrgyzstan relies on donor money, and this means that donor influence is significant. It is in the interest of donors to promote participation in this context. However, there is a tendency among donor organisations to create parallel structures rather than aiming for alignment with existing or newly established official structures (cf. Section 5.1.3).

However, many interviews conducted among local businesspeople indicate that the latter do not consider the *keneshi* a very useful instrument. On many

issues, citizens regard the *keneshi* as meaningless and without power. At *raion* and *oblast* level they do not have much power because administration is accountable to the central government and not to the citizens.

*“The situation with the raion and oblast keneshi is strange, because they are just elected, but basically they do not decide on anything.”*  
(Expert, interview 040Int, 23/02/04)

At *aiyl okmotu* level the *kenesh* is closer to the people because deputies are neighbours and members of the same communities. Furthermore, the *kenesh* is legally considered the legislative body of the *aiyl okmotu*. Yet, businesspeople do not make much use of this instrument. It is often said to be meaningless because the whole *aiyl okmotu* level is regarded as having little power. The administration has little room for manoeuvre and depends on the upper levels. For this reason, few decisions are taken in which the *kenesh* could get involved.

*“I am member of AO kenesh. I don't think that keneshi at any level play any role. Everything is decided at the top.”* (Kenesh member, interview 790Int, 26/03/04)

Businesspeople try to solve most problems concerning their businesses by themselves or with the help of their family. The main issue for which they turn to the *kenesh* is rental of communal property. The management of communal property is one of the few clearly defined functions of the *aiyl okmotu*. There are some communities in which the administration of communal property functions satisfactorily. These communities are a good example showing that the lowest level can successfully deal with matters of local concern if responsibilities are clearly defined. In other cases, however, as soon as legal uncertainties or quarrels have occurred, people have turned directly to higher levels.

Members of *aiyl* and *raion keneshi* told us that they solve all kinds of their citizens' everyday problems. Often, matters concerning damaged infrastructure, lack of social institutions and land questions are brought forward to the *kenesh* members. Usually this takes place in meetings between individual *kenesh* members and citizens, either during consultation hours or in informal meetings on the streets or at the *kenesh* member's house. Many *kenesh* members presented themselves as very involved and open for their citizens' problems.

*“As a deputy of Ivanovka aiyl okmotu I meet the electorate, they can turn to me anytime, any hour of the day. E.g. in Ivanovka we had a problem with drinking water, citizens called me at night and asked me for help. And within ten days we fixed the water pipeline. So now there is water for [...] the population.”* (Kenesh member, interview 820Int, 30/03/04)

However, people’s opinions on the work of the *keneshi* are more diverse. In general, businesspeople reported that the *aiyl kenesh* is not very helpful in most matters concerning their business, with the exception of renting communal land. Interestingly, most interviewees from the private sector did not consider the *kenesh* to be responsible for questions of local economic development. Their expectations are usually directed towards administration staff. The assessment given of general *kenesh* performance depends very much on the engagement shown by the individual *kenesh* members.

There are very active members of *kenesh* who serve the citizens as best as they can. They know the laws and know whom to turn to for different concerns. Others were very passive and did not seem to know what their designated functions were. They considered their position as meaningless and therefore saw no reason to make an effort.

The heads of *aiyl okmotu* play a crucial role in the work of the *kenesh*. As chairpersons of *kenesh* and heads of administration, they can give important impulses but also frustrate the other members of *kenesh*. Heads that feel more responsible to the local state administration than to their electorate render the work of the *kenesh* difficult. We encountered the case of a village in which there had been four different heads of AO in the last five years. The respective *kenesh* was very discontent with its working conditions, and many members had resigned. Accordingly, the inhabitants of the village were not happy with their *kenesh*.

*“Q: Can you tell me about the general role of kenesh in your AO? A: It’s hard to say. Actually, there are no general roles. Nobody does anything. Q: When people in your village have problems, do you give them any advice? A: Nobody comes to me. Usually they don’t come to us. Usually they co-operate with the raion administration or with the organisation they started their business with.”* (Kenesh member, interview 320Int, 04/03/04)

In summary, it can be stated that the *keneshi* are of no great relevance to businesspeople. The function of the *keneshi* is seen much more in their ability to resolve social problems or everyday issues in the community.

This perception recognizes only a very limited range of *kenesh* functions. According to the law, work on local economic development programmes clearly falls under the responsibility of the *aiyl kenesh*. As citizens are not informed of their rights or the duties of the *keneshi*, they do not undertake the effort needed to make the *keneshi* responsible for anything. Many (passive) *kenesh* deputies support this attitude by giving people the impression that they have no authority or power. Other deputies seem to work against their electorate instead of with them, and people thus do not trust them. In one village the deputies avoided confronting their electorate and accounting for their work. As a result, people suspected the deputies of embezzling communal assets.<sup>124</sup> Overall, *keneshi* do not play the crucial role of a channel of participation for citizens that they could play if they fully exhausted their possibilities.

### *Elections*

At an average level of 66.4 % in the last local elections in 1999, voter turnout in Kyrgyzstan was not particularly low.<sup>125</sup> However, in the interviews people did not consider elections a significant possibility to participate. Elections at the local level in particular were characterised as meaningless. People argued that being elected was tantamount to being powerless. Yet, people turn out for elections.

*“Q: So, why do you go to elections, if AO and raion does not do anything for you? A: I think, we just got used to it.”* (Farmer, interview 990Int, 02/04/04)

As was shown, the elected *kenesh* does not appear to fulfil its tasks as provided for in the law. The fact that the *kenesh* is elected might be expected to move people to pressure *kenesh* members to assume the responsibilities given to them through the election. However, the opposite is the case. People say that because the *kenesh* is elected, it is powerless. According to this logic, those officials who have been appointed have the necessary connections to higher officials – i.e. to those who have appointed them – to assert themselves.<sup>126</sup>

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124 See e.g. meeting 111Meet, 26/02/04.

125 Radio Free Europe (1999).

126 See e.g. interview 120Int, 01/03.

Even though the turnout may be relatively high, citizens do not believe in the power implicit in elections. They do not hold their representatives responsible and do not try to pressure them to work in the interest of their electorate. On the one hand, this might be associated with a general mistrust in the capacities of local authorities as well as with the experience from Soviet times, when elections were merely a farce. On the other hand, citizens in fact also lack knowledge about the use of democratic instruments (see Section 5.2).

### *Kurultai*

Potentially, the *kurultai* is an instrument of direct democracy, as has been described in Chapter 3. Delegates from all over the *aiyl okmotu*, *raion* or *oblast* come together here and are supposed to have a chance to comment on the work of the respective administration and on plans for the coming year. Furthermore, a *kurultai* is supposed to be a forum at which to discuss important problems of local relevance. In fact, however, opinions on the *kurultai* differ considerably.

Generally, businesspeople did not perceive the *kurultai* as an effective instrument to put forward their opinion. They did not think that this was the place where solutions for their problems could be found. Administration and *kenesh* people, on the other hand, presented the *kurultai* as a place where they learned about citizens' concerns, which they then considered for their work. The quotes below illustrate the opposing views of a businesswoman and a *kenesh* member from the same village:

*"Q: How can you influence the work of the aiyl okmotu, can you participate in any way? Have you been at a kurultai? A: No, there are no possibilities of participation. I have also never been at any kurultai."* (Businesswoman, interview 970Int, 02/04/04)

*"During the kurultai a lot of problems can be discussed. Of course, if it gets to the extreme point with the dissatisfaction concerning the work of the aiyl okmotu, they can be impeached, but it depends on the level of the problem. All problems are discussed at the kurultai. The freedom of speech is very much exercised at the kurultai. There are many examples in the republic where the head of aiyl okmotu was impeached."* (Kenesh member, interview 220Int, 03/03/04)

Judging from observations made by our research team directly at a *kurultai* meeting at *aiyl okmotu* level (cf. Box 9) as well as from different reports



about other *kurultai*, it is fair to say that in these cases the democratic potential of the *kurultai* was by no means exhausted.

**Box 9: Observations from a *kurultai* at *aiyl okmotu* level**

At a *kurultai* that was observed by members of the research team, participants did not seem to be aware that they had the opportunity to speak out, thinking instead that they were supposed only to listen to the report presented by the administration. According to the regulations, participants ought to be representatives of a neighbourhood or street, elected by the local inhabitants. In fact, however, one delegate told us that she had been told to participate by a department of social affairs of the local administration from which she receives financial and in-kind support. Obviously, there is a danger that delegates may be purposely chosen by the administration on the assumption that they are passive and will not raise any issues.

The speakers at the *kurultai* were all chosen by the administration, and not all of their reports were comprehensible to the audience. After three hours and many speeches, the *akim*, who had been present throughout the meeting, spoke for another hour. The participants were given the chance to write down some questions and problems which the *akim* looked at. He selected those that he wanted to answer, telling others that theirs' would be answered in written form later. The problems mentioned concerned single issues that complicated people's daily lives. These problems often were not within the scope of the administration's responsibility. For example, the question was raised why the price of sausages was higher in the village than in the city. The very presence of the *akim* at the meeting, and his giving a speech, added to the confusion among people about which level of government is responsible for which kind of problems and demands. Issues raised by ordinary delegates were all brought before the *akim*.

The *kurultai* thus mainly seemed to be an instrument in which things were wordlessly approved rather than discussed. The overall organisation of the *kurultai* seemed to aim at discouraging people from participating, the means including long speeches and presentation of complicated or incomprehensible reports. The non-administration speakers were very moderate and not at all critical, except for one person. The participants seemed to endure the procedure because it was their duty. Yet, they were not really interested, and they were eager to go home.

Source: own observation – *kurultai* 440Meet, 15/03/04

It appears that people are not really familiar with the functions of the *kurultai*. Potentially, this body could be the forum at which citizens could pressure their local government to act more responsively on their demands. This would include insisting that enough room be given to citizens

to raise issues related to the work of the administration. Open debates over relevant issues such as development plans, the formation of the local budget and the use of communal property would stimulate public interest and ownership in the *kurultai*.

### *Condominium associations*

Condominium associations are bodies assigned the task of organising communal work and keeping public order in a designated area of a local community. At the same time, they can serve as an important mediator between the local administration, with which they meet once a week, and the residents, to whom they are personally known. However, yet again, businesspeople did not consider them as a possible channel to influence decisions of the administration concerning their problems and demands. Indeed, businesspeople did not mention them at all.

According to the law, members of condominium associations should be elected. However, this requirement does not seem to be taken too seriously. In one randomly chosen case, for example, we found that the members of a condominium organisation were honourable citizens respected for their seniority who had merely been asked by the administration to take over the post in the association. A formal election, however, had not taken place. In talking about their duties, these people conveyed the impression that they felt more accountable to the administration than to the population.

*“Association members are explaining to the people what they are supposed to do and mostly people voluntarily go and do this work. The committees work on questions of organisation, for example, at what time the [communal] work should start. There are also some people who do not want to work. We call them negative residents. What we can do is to fine them. But if they are not listening at all, we call them to the administration or to the court of aksakal. We can even move the people out of the street.”* (Member of condominium association commenting on the organisation of communal work, interview 530Int, 16/03/04)

This attitude might explain why businesspeople did not perceive condominium associations as an instrument useful to represent their interests. However, it may be doubted in general whether condominium associations are the right instrument to lobby for businesspeople's interests. An association's responsibility includes all the inhabitants of a designated area. Therefore, individual interests of particular groups do not fall under the responsibility of the condominium associations.

### *Meetings with businesspeople*

Meetings between businesspeople and administrations were typically initiated by the *raion* administration.<sup>127</sup> Usually, they took place separately for each *aiyl okmotu* and were organised by the respective *aiyl okmotu* administration, which invited the businesspeople. According to the administrations, the idea was to listen to the people's opinions about their business situation and possible problems.

Businesspeople had different interests in these meetings. In one *raion*, the person who organised the meetings was new in office and one of the businesswomen wanted to hear his ideas and get information about policies for the near future.<sup>128</sup> Another businesswoman intended to go to address all her problems and criticize the administration's work.<sup>129</sup> Another businessman was very suspicious of these meetings and suspected that they only served to allow the administration to get information on businesses and their income, but without any real interest in business problems.<sup>130</sup> As shown in Box 6, participant attitudes towards the meetings ranged from "hope" (that things would actually improve), a "green light" attitude (administration should merely stop putting obstacles in the way of businesspeople), to "frustration" (that things would remain just as they are).

At one of the meetings to which we were invited, only women participated. Obviously, not all of the business community felt addressed. I.e., we were told that all the men were in the field working and thus could not be there. Either way, neither meeting as such nor its date was in line with people's needs. Another aspect restricting access of interested businesspeople was the fact that participants were invited personally by the administration. Thus, it is questionable whether all relevant stakeholders actually have a chance to participate.

The fact that all the meetings were initiated by the *raion* administration, shows that the *raion* seems to feel responsible for local economic development, even though the measures offered are limited. The distribution of tasks between

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127 In our sample of case studies, this was true for all meetings that took place during the period of observation. See Chapters 4.2 and 4.3 for details on business meetings.

128 See interview 770Int, 23/03/04.

129 See interview 750Int, 23/03/04.

130 See interview 710Int, 23/03/04.

*raion* and *aiyl okmotu* – the *raion* initiated these meetings and the *aiyl okmotu* organised them – again raises questions as to the independence of the *aiyl okmotu*, which is mainly used to assist an upper level of government.

### *Conclusions on formal channels of participation*

In principle, the channels of participation created through the decentralisation process have great potential. However, none of them works as intended. Only very few stakeholders are familiar with the exact functions of these channels according to the law. Consequently, the channels function arbitrarily and not always to the benefit of citizens. Another important factor that keeps people from actively using the formal channels of participation is the extremely limited scope of responsibilities and policy-making possibilities of administrations at *aiyl okmotu* level, for which most of the participatory channels have been created.

### 5.1.2 Informal channels of participation

The minor relevance of formal channels of participation gives leeway to all kinds of informal communication. If people are unable to take part in decision-making or to voice their opinions in any formal way, they look for alternatives to influence decisions in their favour. In the case of Kyrgyzstan, having the right personal contacts and paying bribes, are the most common approaches .

#### *Direct personal contacts*

Having personal contacts and good relations to higher officials and decision-makers is the most direct way to influence decisions. This makes it possible to avoid the detour via elected representatives, and it at the same time gives greater weight to individual interests. Of course, only selected people have such access, in our case it is mainly successful businesspeople that are directly in touch with the *raion akim*. Representatives of this group had no complaints about any problems and reported that all their concerns were resolved easily and quickly. People who enjoy this privilege openly talked about their good relations and did not seem to have a sense of injustice. Instead, they perceived it as a privilege, one of which they could be proud, to know the “right people” who would help them to solve their problems.

*“I don't know about some other business people, they might have some difficulties, but as for me I have the phone number of the akim and I can call him anytime or just go to his house. If I have some problems I can ask him for help. And I even have the phone number of the city mayor. So I actually don't have any difficulties.”* (Businesswoman, interview 230Int, 03/03/04)

Although this was not mentioned by those people that use their favourable personal contacts, one might speculate that the favours given by the authorities are returned by the businesspeople. Many businesspeople give material support to administrations to organise public celebrations on holidays or for support of the poor. Those that talked about this kind of support seemed to perceive it as their duty to society or administration, without saying that they felt forced to do it. However, it is not clear whether businesspeople would still have their good relations with the authorities if they refused to give these donations.

### *Bribery*

As discussed in Section 4.1, bribery is a very common phenomenon in Kyrgyzstan. Businesspeople who talked about the existence of this practice conveyed the impression that bribery is almost accepted as a necessary evil.

*“A: There was something when we started. For 2-3 months we had to make a great effort to get all the papers. We had to pay a lot of money and they sent us here and there. But we don't have any problems with the tax inspection. We pay regularly and they leave us alone. Q: Did you have to pay any bribes to get all the papers to open the business, we were told this by several other business people. A: Of course, that is normal here.”* (Businessman, interview 940Int, 01/04/04)

Bribery poses the same problems to equal participation of large parts of the population as misuse of personal relations. It undermines the formal channels of participation and thus strengthens and reproduces the informal ones. Furthermore, it is not equally accessible to all citizens. The open and widespread use and acceptance of bribery harms the credibility of administration, creates a gap between citizens and administration and thus keeps people from participating – they don't trust the authorities.

### *Conclusions on informal channels of participation*

Obviously, influence gained via personal contacts or bribery is not one of the channels of participation foreseen and provided for by decentralisation. Personal contacts and bribery must be seen as violations of the principles of participation, viz. that the latter must be equally accessible and open to everyone. However, these informal channels of participation are very important in Kyrgyz society, not least due to the failure of the formal channels of participation. The more important these informal channels become, the more problematic it is for the lowest administrative level to act and at the same time to be taken seriously. Furthermore, these informal channels reinforce dissatisfaction with the system, with the result that the overall goal of decentralisation, a system more responsive to the citizens, remains beyond reach.

Problems that are solved through these informal channels are individual in nature and the process of finding solutions is issue-driven. This practice undermines real policy-making, in which participation would make sense. At the same time, administrations fail to develop programmes in which participation would be possible. This gives rise to a vicious circle in which people tend to resign instead of making the greatest possible use of the formal instruments available to them.

#### 5.1.3 Channels of participation created by donors

This problematic situation has been recognised by the donor community, and some measures have been developed to improve the possibilities for people's participation based on equal access. The Urban Institute together with the Soros Foundation has created the instrument of Public Hearings, and the World Bank has established Local Investment Councils.

##### *Public Budget Hearings*

Public Budget Hearings are carried out in the framework of the Strategic Planning initiated and supported by the Urban Institute<sup>131</sup> and the Soros Foundation<sup>132</sup> since 2002. The idea of Strategic Planning is to help com-

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131 [http://www.ui.kg/about\\_eng.shtml](http://www.ui.kg/about_eng.shtml).

132 <http://www.soros.org/about/foundations/kyrgyzstan>.

munities exhaust the possibilities given to them by the law on local self-government. In this framework, communities are provided support in elaborating their social and economic development plans, in developing a coherent budget and in informing citizens about work of their administration. The Public Hearings serve to make the budget plans known to the population and to have suggestions made included in them.<sup>133</sup>

Under the law on local self-government, the *kurultai* are supposed to serve as an arena to discuss and amend the budget. As described above, this often does not take place. In the Public Hearings organisation staff sees to it that there is enough room for discussions. Furthermore, in contrast to the *kurultai*, the Public Hearings are open to any member of the community and not only to representatives.

Yet, the Public Hearings are pretty similar to the *kurultai*, or to what the *kurultai* should be. Consequently, the question could be raised why a new instrument had to be created in the first place. Improving the existing one might have proven to be a chance to demonstrate how useful those channels of participation are that have been laid down in the law.

### *Local Investment Councils*

Local Investment Councils (LICs) have been established in the context of the Village Investment Project (VIP) which was set up by the World Bank in 2003. Part of the programme is to provide technical and financial support for community-based initiatives. Funds are made available in the form of small grants to *aiyl okmotu* which are channelled through LICs.

At the village level, Village Investment Committees are to identify local problems, define own priorities and set up micro-projects in close cooperation with local citizens. At the *aiyl okmotu* level, LICs support this effort, distribute grants to Village Investment Councils and coordinate the latter's activities. A number of *aiyl kenesh* deputies and the head of the *aiyl okmotu* are also members of the LICs. The LICs prepare *aiyl okmotu* investment strategies which the respective *kenesh* has final authority to approve. One important component of the project is capacity building, which is certainly very important, particularly at the local level.<sup>134</sup>

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133 See interview Int04, 23/02/04.

134 See interview 090Int, 25/02/04.

The programme was expected to start in 2004. Accordingly, it is not yet possible to comment on any effects. However, here as well as for the Public Hearings, it may be asked why existing structures are – at least in part – being bypassed while new ones are created.

### *Conclusions on the channels of participation created by donors*

A general assessment of the donor initiatives presented here is beyond the scope of this study. However, a number of conclusions concerning their effect on local participation can be drawn on the basis of the actual design of activities. Both projects, Public Hearings and the Village Investment Project, work together with or include parts of the administration in their work. Nevertheless, they do create parallel structures where, according to the law, formal channels of participation already exist. It therefore seems warranted to give some thought to whether and how the existing instruments could be reformed to serve the same purpose. The Public Hearings, for example, could be incorporated into a reformed *kurultai*. Similarly, the VIP should consider shifting towards direct local budget support as soon as possible. While donors like the German KfW, which co-finances the VIP, have expressed their intention to move in this direction at some point in the future, it might be worthwhile giving some thought to tools that, right from the beginning, strengthen the administration and the role of existing formal channels of participation.

Parallel structures, by contrast, undermine the authority of elected self-governments. Citizens can only participate in a limited number of events and committees. Consequently, people choose those in which chances are highest that they will actually be able to influence decisions. This is mostly the case in donor-initiated projects as these are better funded. Accordingly, there is also a danger that the formal structures will become even more meaningless than they already have become.

Thus far, we have discussed in some detail the channels of participation with their limitations and chances. The focus has been on the way they function and on inherent reasons for problems which contribute to very limited participation levels. However, dysfunctionalities of the channels themselves are not the only reasons for lack of participation. Another important factor is the context in which participation is supposed to take place. This context is determined by the administrative structures. These



contribute considerably to the fact that the population is not involved equally in decision-making.

As Chapter 4 has shown, lack of finance, functional assignments, capacities and competencies at *aiyl okmotu* level determine the outcome of the promotion of local economic development. However, these deficits also strongly influence participation. Lack of decision-making power at the lowest level of government limits the room for manoeuvre of the *aiyl okmotu*. Consequently, strategic and comprehensive policy-making does not take place. Hence, for the citizens there are no incentives to become involved.

This basic fact, the lack of importance of the *aiyl okmotu*, also partly accounts for the persistence of the dysfunctionalities in the formal channels of participation. As long as participation is confined to issues of minor relevance, it does not make sense to improve the channels which enable this kind of participation. Instead, this approach tends to confirm and strengthen people's sceptical attitudes towards decentralisation.

## 5.2 Attitudes of stakeholders and their influence on participation

A deficient decentralisation process that leaves formal channels of local participation without meaningful authority has been shown to be a major factor accounting for inadequate popular participation. The situation is exacerbated, however, by a second factor that can tentatively be termed "unfavourable attitudes." Our interviews revealed that many stakeholders hold attitudes that are not favourable to active participation in local political decision-making. This final section discusses the reasons for these attitudes and their consequences for the participatory behaviour of stakeholders in local economic development, thereby concentrating on businesspeople and local authorities.

Two interrelated aspects turned out to be particularly strong: first, an obedient, though rather critical, attitude towards authority and hierarchy, and second, a sceptical attitude towards institutions of democracy. Both aspects apply for both the population and administration representatives. Unsurprisingly, these attitudes display characteristics that can be linked to

the authoritarian legacy of the Soviet Union, which continues to influence society and institutions in today's Kyrgyzstan.

Attitudes towards authority and hierarchy among local businesspeople are marked by ambiguity. High and, arguably, unrealistic expectations with regard to what official authorities *should* ideally do contrast with widespread dissatisfaction with their performance and a generally pessimistic view of what authorities *will* likely do. Appointment of officeholders from above is perceived as normal, and poorly performing authority is rarely questioned as such, though it is deplored for its poor performance and at the same time feared due to its still functional power. As a consequence, most people are not willing to become active themselves and start up their own initiatives as this would entail the risk of displeasing the authorities. In a nutshell, popular perception of authority as legitimate rests much more on tradition and transfer of power from above than on performance and accountability to the people.

This interpretation is also supported by a widespread scepticism towards institutions of democracy. Neither do people see that democratic institutions *do* make a great difference nor do most people believe that this *could* be the case and that making use of institutions could therefore be worth the effort. Elections, the prime institution of formal democratic participation, are perceived by many to continue to be what they were in Soviet times: meaningless – with candidacies agreed upon by the powerful beforehand and voting no more than a formal duty without any real consequences for the people: “We are just used to it,” was a symptomatic comment explaining why people went to the polls even though they did not consider their outcome to be relevant.<sup>135</sup>

At the same time, officials in administrations and local councils mirror these attitudes with their own paternalistic mind-sets. Although many deplore their own helplessness, which they see as resulting from limited competences and insufficient resources, they still feel responsible both for each and every aspect of their citizens' livelihoods and, as in Soviet times, for indicators of economic production as well.

Still, the weight of historical legacies must not be overestimated. In contrast to the overwhelming attitude of obedience and scepticism on the one

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135 Interview Int990, 02/04/04.

hand and paternalism on the other that many interviewees conveyed, some administrative officials as well as businesspeople reported that citizens are starting to get more and more involved in matters of local significance. According to these reports, engagement in local affairs has notably increased compared to Soviet times, as people now see that they have to take matters into their own hands<sup>136</sup> In one example, citizens of a village had actively voted their head of *aiyl okmotu* out of office because they perceived him as not working for the benefit of the community.<sup>137</sup>

Examples like this one are important because they break through familiar patterns. Their impact, however, is likely to remain rather limited as long as bodies of local self-government continue to be as powerless as this study has found them to be and formal channels of participation continue to lack the competence to effectively decide on issues of major relevance to the population. Attitudes, like informal institutions, may not immediately adapt to modified incentives, but over the long term they do respond to new circumstances and reward positive experiences. In the absence of such positive experiences, however, pre-democratic legacies in Kyrgyzstan are likely to prevail in forming people's attitudes.

## 6 Conclusions and recommendations

The findings of the previous chapters concerning both policies of local economic development and participation in them permit us to draw a number of conclusions that will be presented in this final chapter.

The decentralisation process in Kyrgyzstan, which got underway more than ten years ago, has created new, promising structures. Bodies of local self-government have been established and channels of participation created, and the population now is able to wield direct influence on issues of local concern. Nevertheless, as the example of local economic development illustrates, much remains to be done. The key obstacle to a higher quality of local economic development policies and improved popular participation in local decision-making is the limited capacity of local self-

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136 See e. g. meeting 111Meet, 26/02/04 and interview 290Int, 04/03/04.

137 Meeting 111Meet, 26/02/04.

government bodies. The main deficiencies that limit the room for manoeuvre of local self-governments are the following:

- Lack of clear functional assignments to each level of government
- Disproportionate power of local state administration
- Insufficient financial resources at *aiyl okmotu* level
- Lack of qualified personnel at the local level.

The field of local economic development, which in this study has served to illustrate the impact of decentralisation on participation, is on the one hand characterised by a number of measures designed to promote economic activities at the local level. Such measures are business-friendly management of communal property, assistance in networking, and mediation between businesspeople and credit unions. On the other hand, obstacles that tend to restrict the business community may be seen as predominant. These obstacles include bribery, lack of legal security and lack of the capacity needed at *aiyl okmotu* level to address these issues.

The *aiyl okmotu* has very limited possibilities to actively design and implement public policies in the field of local economic development. The *raion* administration, by contrast, is much more involved in the promotion of local economic development. At this level, more financial resources are available and staff is better educated and trained. The *raion* administration holds the key capacities needed to promote local economic development, and this is therefore the level to which people turn when they have problems concerning their businesses.

Yet, participation is mainly possible at *aiyl okmotu* level and not at *raion* level. An appointed *raion* administration as the key decision-maker in local economic development is clearly at odds with the political goal of decentralisation: bringing relevant decisions closer to the people, strengthening downward accountability of local decision-makers to a local constituency and encouraging policies that reflect the needs of the local population.

In addition, at both levels, *aiyl okmotu* and *raion*, policies are not designed strategically and comprehensively. Instead, single and issue-driven measures dominate the administrations' engagement in local economic development. Even with such an approach, however, more could be done by

local administrations by way of removing all kinds of obstacles posed to business activities.

With a view to achieving the objective of increased popular participation, different channels were created to influence local political decision-making of the *aiyl okmotu*. However, important parts of the population do not participate. This study has identified three main reasons for this lack of participation:

- the channels are to a great extent dysfunctional;
- stakeholder attitudes towards participation are often unfavourable;
- and the *aiyl okmotu* level is perceived as irrelevant.

At the core of all these problems lies a lack of decision-making power and competencies at the lowest level, even though this is the level that was created to involve people in the design and implementation of public policies.

As a consequence, official channels of participation are perceived as meaningless, since they cannot be used for any real policy-making. Stakeholders do not use the official channels of participation to their full extent because they see no point in it. The *kenesh* especially could be used more actively to influence local decision-making. *Kenesh* members themselves often do not take their own responsibilities seriously because they feel powerless.

The fact that decisions cannot truly be influenced via these formal channels has caused informal channels to gain in importance. As the intransparent decision-making processes at *aiyl okmotu* and *raion* level usually concern not coherent strategies but rather single issues, people try to influence these decisions individually. Making use of the “right” personal contacts or paying bribes is thus a very effective way of influencing decisions according to one’s own interests – under one condition: provided one has the relevant contacts and the necessary finance. Accordingly, the objective of equal participation of large parts of the population has not been met. Instead, large parts of the population are excluded.

The study has shown that people are very sceptical about taking part in the new political system via the existing formal channels. The population is not experienced in using democratic instruments and lacks knowledge about their possibilities. Equally important, people have great respect for

hierarchies and often do not assert themselves vis-à-vis officials. Furthermore, many people are simply not willing to take over communal responsibilities. Moreover, officials do not always welcome people's participation and prefer to keep processes intransparent for the public.

The persistence of these attitudes may be seen as due to limited possibilities of public participation in strategic and comprehensive decision-making. Accordingly, people see their attitudes confirmed that elections are meaningless because things do not change anyway and that instead the factors that count are hierarchies and having the right connections. These attitudes create a vicious circle in that they do not give a fair chance to a system of decentralised, participatory governance. As a result, the system being unable to function without active participation, sceptical attitudes are reproduced.

All these factors contribute to the perception of the *aiyl okmotu* – the administrative level that is closest to the people and allows, in theory, for the highest degree of participation – as meaningless and irrelevant. Participating in decision-making processes only makes sense if decisions can actually be influenced. Currently, at the local level in Kyrgyzstan, this is only possible within very narrow limits.

With a view to improving this situation, we propose the following recommendations:

### *Decentralisation*

- Local self-government bodies need meaningful budget revenues that provide them with financial resources which they can use at their own discretion. Full implementation of the new legislation on the financial and economic basis of local self-government would be a first important step in this direction. Donor agencies could contribute substantially to resolving this issue. Information campaigns on existing laws and their importance would serve to raise awareness at the local level, especially in administrations. Furthermore, legal advice could be provided to encourage administrations to learn how to deal with the legislation and to support them against possible pressure from local state administration.
- Administrative practice needs to move away from the notion of “every level of government does everything.” Local self-government bodies need their own guaranteed sphere of competencies and ade-

quate administrative resources to deal with them. Only then can they begin to define their own sustainable strategies and act according to their own priorities. Of course, this is a long-term process and cannot be achieved at once. However, to pave the way, first steps have to be taken. One could be the establishment of an administrative court system. For a strict delineation of powers to work in practice, local self-government bodies need to be able to turn to a court if they have disputes over competencies with a body of local state administration, and to have a fair chance to win their case.

### *Local economic development*

- All levels of government as well as international donors should invest in capacity building for local administrative staff in order to inform these staffers reliably on *aiyl okmotu* functions and competencies. One important part of such trainings should include guidance on the delivery of public services, particularly on how to devise policies of local economic development. This aspect of public services has so far been neglected. On the part of the government, incentives should be created to induce administrative staff to take part in such training measures.
- Both local self-government bodies and local state administration should pay more attention to local economic development measures that incur little or no costs. Above all, this means removing obstacles to business activities, making administrative procedures more transparent and combating corruption.

### *Participation*

- NGOs and donor agencies that attempt to strengthen popular participation should systematically involve and support formal institutions such as *keneshi* and *kurultai*, and in this way help to boost their reputation as important channels of participation. It is essential to avoid creating parallel structures that circumvent the official channels because such structures weaken formal institutions. Donor money that is intended to support public investments at the local level should be channelled through local budgets controlled by local councils and other bodies officially provided for this task.

- At the same time, local citizens still lack knowledge and experience in using democratic institutions effectively. Local governments as well as NGOs should invest more effort in informing the population about possibilities to participate in local decision-making and training local activists in making use of these instruments.



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## Annexes





## **Annex A:** Chronology of decentralisation in the Kyrgyz Republic

1991	“Law on Local Government in the Kyrgyz Republic”
1996	Establishment of local self-government executive bodies ( <i>aiyl okmotu</i> )
since 1997	Soros Foundation Kyrgyzstan carrying out a “Public Administration Programme”
since 1998	Decentralisation Programme of UNDP; recently combined with the UNDP “Preventive Development in the South” programme
1999	Start of public hearings conducted by USAID
Oct 1999	Local elections in Kyrgyzstan
2000	Introduction of the post of “Minister of Local Self-Government and Regional Development” within the Government of the Kyrgyz Republic
2001	Elections for head of <i>aiyl okmotu</i>
Jan 2002	Law of the Kyrgyz Republic “On Local Self-Government and Local State Administration” signed into force
Dec 2002	National Strategy “Decentralisation of State Administration and Development of Local Self-Government in the Kyrgyz Republic until 2010”
2003	Foundation of the Village Development Agency within the Village Investment Project of the World Bank
Sep 2003	Law of the Kyrgyz Republic “On Financial and Economic Basis of Local Self-Government” signed into force, becoming effective in Jan 2004
2004	Declaration of the “Year of Social Mobilisation and Good Governance”

Oct 2004	Local elections for city and village <i>keneshi</i> (councils)
Feb / Mar 2005	Two rounds of elections for the <i>Jogorku Kenesh</i> (national parliament); after second round, violent demonstrations against unfair conduct of elections, starting in the south, gain momentum and reach Bishkek
24 Mar 2005	President Askar Akayev leaves the country and is replaced by Kurmanbek Bakiyev
Jul 2005	Presidential elections confirm Bakiyev as president
Aug 2005	President Bakiyev announces that <i>oblasti</i> are to be eliminated by 2007

## Annex B: Methodology

### 1. A case for qualitative empirical research methods

Standard measures of decentralisation fail to account for important factors that determine the intended effects of decentralisation (see Section 2.1). For instance, the measure ‘local expenditure as a share of total government expenditure’ suggests similar levels of decentralisation in the Russian Federation and in Canada<sup>138</sup>, but it can hardly be concluded from this, that local governments operate as independently and efficiently in the Russian Federation as they do in Canada.

The intention of the present study is not to measure decentralisation but to evaluate its impact on participatory processes in the policy field of local economic development. As consideration of a complex set of political, social and economic dimensions is associated with this objective, purely quantitative research methods can be ruled out. Furthermore, in dealing with a transition country, dimensions of social change have to be explored. This is the reason why qualitative methods of empirical social research were given preference for the purposes of this study.

Why are qualitative methods more satisfactory in coming to terms with our research topic? When the research object is processes rather than static facts, the researcher has to explore relations between actors and the rules that govern these relations (institutions) as much as the dynamics that cause rules and relations to change over the course of time (‘institutional change’).

*“In other words, the institutions and social structures affected by reforms [...] should not be viewed only from today’s perspectives but also as a result and as part of a historical process.”<sup>139</sup>*

Whereas it is conceivable to capture institutional *settings* within singular enquiries – or ‘snapshots’ – the *dynamics* that govern institutional change can only be revealed by creating a ‘moving picture’: stringing together snapshots by interrelating them and using interpretation to give meaning to the relations.

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138 World Bank (2001a, vii).

139 Aligica (1997, 49).

This implies that subjective interpretations, contextual contingency and reactivity, as attributes of the research objects (actors, informal rules) and in the research situation itself (interviews, participatory observation, etc.), are not only desirable but necessary preconditions for the qualitative research process.

Qualitative social science can live up to the task of exploring dynamics as complex as those of post-Soviet transition. “To document, to reconstruct analytically, and finally to comprehend the process of constitution of reality is the central aim of qualitative social research.”<sup>140</sup>

In order to come to valid and reliable conclusions, a mix of qualitative methods was used<sup>141</sup>. One chief research instrument was the semi-structured interview (see below). In addition, valuable insights and information were gained from participatory observation, informal conversations, and the media. The triangulation<sup>142</sup> of these different kinds of data contributed to a comprehensive picture of the decentralisation process in Kyrgyzstan.

## 2. Grounded Theory as style of research

The research process was guided by an array of techniques referred to in the qualitative social science as Grounded Theory. This ‘style of research,’ developed since the 1960s, affects various phases of our research process: the sampling of interview partners, data generation (data gained from semi-structured interviews and observation methods), data analysis and theory generation. Here, we introduce some of the principles of Grounded Theory:

**Theoretical sampling** is “a means, ‘whereby the analyst decides on analytic grounds what data to collect next and where to find them.’”<sup>143</sup> In coding the data and establishing categories using the Constant Comparative Method, the researcher may get clues as to where to look next to achieve what Grounded Theory terminology calls “conceptual density.”

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140 Lamnek (1993, 25), transl. JW.

141 Lachenmann (1995).

142 Flick (2000).

143 Strauss (1987, 38).

**Coding** is the term used for the analytical process by which the raw data are structured in categories of analysis, and by which codes are attached to these categories. Coding takes three different forms:

*Open coding* is the procedure by which the researcher develops preliminary categories on grounds of constant comparison and examination of data. Occurrences of the same phenomena are accounted for by attaching the same codes; attributes that constitute the phenomena are defined. Open coding is used as the initial means to break the data down into categories.

*Axial coding*: Used to define relations between distinct categories as well as between category and sub-category, axial coding gives rise to a system of categories that represents the content of the data.

*Selective coding*: The researcher concentrates on a core category and re-relates all categories to the core category. This step involves a continuous refinement of categories, and the emerging concept is enriched up to a point at which “conceptual density” is achieved.

The modes of coding do not necessarily follow a sequential logic; the researcher switches constantly from one mode to the other.

A network of categories and defined relationships develops in the course of coding,. If sampling and coding procedures are done thoroughly, this grid lays the ground for theoretical concepts, which are ‘grounded’ in the data.

Grounded Theory conceives of overall research as a circular process of data generation and analysis, constantly adjusting the approach to new findings.

### **3. Categories and questions**

Table 2 presents a summary of our research interest as it developed in advance of our field research. It is structured in two domains (decentralisation and participation in local economic development), six categories and several sub-categories. The questions derived from these sub-categories served as the basis for the formulation of the interview guidelines (see Section 5 in this annex).

Table 2: Research questions				
Decentralisation in Kyrgyzstan				
Categories	Sub-categories	Questions	Sources/interviewees	
Structures and institutions	Organisation of administrations	What formal institutions have been created through decentralisation?	Literature; Experts if details are not clear	
	Interests behind the decentralisation process	What interests have had an influence on the design of the decentralisation process?	Experts; Indirectly: public sector	
		Is there sufficient ownership on the part of the Kyrgyz government?	Directly: experts; Indirectly: public sector	
	Responsibilities of different administrative levels	How are tasks and responsibilities divided between the levels?	Literature; Directly: public sector	
	Channels of participation provided for	What are the channels of participation provided for?	Literature; Directly: higher officials, knowledgeable of the strategy	
Problems	Local finance, lack of regulations/clear distinctions between the levels, resistance of local elites, limited capacities at local level, Soviet legacy	To what extent do these problems restrict decentralisation?	Directly and indirectly: officials at different levels of administration	
	Other problems to be explored	How do other problems restrict participation?	Directly and indirectly: officials at different levels of administration	

<b>Participation in the promotion of local economic development in Kyrgyzstan</b>				
Policies	Policies to promote local economic development	What approaches exist to promoting local economic development in Kyrgyzstan?	Directly: public and private sector	
	Extent of participation	How participatory are these approaches?	Directly: experts; Directly and indirectly: all groups of actors (public and private sector, civil society)	
Stakeholders	Actors	Who are the stakeholders involved in local economic development?	Indirectly: public and private sector	
	Organisation	How are the stakeholders in the promotion of local economic development organised?	Directly: experts; Directly and indirectly: all groups of actors	
	Influence	Whose needs are reflected by local economic development policies?	Directly: experts; Directly and indirectly: all groups of actors	
Decision-making	Formal/informal channels of participation	How and by whom are policy decisions on promotion of local economic development made?	Directly: experts; Directly and indirectly: all groups of actors	
	Forms of participation (information, consultation, active participation and co-operation)	To what extent are stakeholders engaged in decision-making?	Directly: experts; Directly and indirectly: all groups of actors	
Obstacles to participation	Local finance, lack of regulations/clear distinctions between the levels, resistance of local elites, limited capacities at local level, Soviet legacy	Do problems of decentralisation pose obstacles to participation in the promotion of local economic development?	Directly: experts; Indirectly: all groups of actors	

#### 4. Case selection and selection of interview partners

In-depth case studies formed a central part of the empirical analysis. The sample of local communities and regions for these case studies was selected according to certain criteria. One important criterion was the North-South divide in Kyrgyzstan. Southerners in Kyrgyzstan often perceive themselves as disadvantaged in terms of economic development and political representation. The North is economically more developed, and the capital, Bishkek, is situated there. To be able to make statements about the decentralisation process in general, cases had to represent both parts of the country. Another criterion was to cover cities as well as *aiyl okmotu* with a view to being able to account for an urban-rural divide as well. Thirdly, with a view to the policy field of local economic development, selected communities had to exhibit a minimum degree of agricultural, industrial or service activities that did not rule out significant LED activities from the outset. Pragmatic considerations, e.g. accessibility of villages, also played a role.

The sample that was finally chosen included in the South the city of Kochkorata as well as the *aiyl okmotu* Masy and Dostuk, all located in Nooken *raion*, Jalalabat *oblast*. For the North, the city of Kant and the *aiyl okmotu* Uzun-Kyr and Krasnaia Rechka in Issyk-Ata *raion*, Chui *oblast*, were selected.

Interview partners represented four different groups, all of which were relevant for certain aspects of the research question:

*Private sector:* stakeholders in local economic development, for example businesspeople and business associations

*Public sector:* staff at different levels of administration (*oblast*, *raion* and *aiyl okmotu* level, with an emphasis on the latter two) and in different positions

*Civil society:* individuals, people in organisations and groups that have a stake in local economic development, for example local and regional non-governmental organisations

*Experts:* staff of academic institutions in Bishkek, of international donor organisations, non-governmental organisations and international organisations



## 5. Semi-structured interviews

Semi-structured interviews served as a crucial instrument for data gathering. This interview form allows for an optimal combination of the desired openness and the necessary focus. Keeping the interview flexible and adjusting it to possible unexpected turns of the conversation helped to get a deeper understanding of the way that the decentralisation process works and how it is perceived. On the other hand, a guideline for the interviews was necessary to generate the relevant information with respect to the research interest.<sup>144</sup>

The data generated by semi-structured interviews and participatory observation were analysed with the help of a software tool for computer-assisted qualitative data analysis. This software helps to structure and organise data in a way consistent with a Grounded Theory-guided research style. At the same time it allows for a good overview and manageability of the data through code and retrieve-functions for codes, quotations and memos.

Different guidelines were developed for different types of interviewees. In expert interviews, the focus was not on personal experiences and interpretations but on gaining information and facts about the decentralisation process in Kyrgyzstan. It was possible in this way to formulate direct questions on the relevant issues and define a relatively fixed structure for the interviews.<sup>145</sup> Experts could be expected to be willing to openly share their knowledge and to be able to understand the purpose of the questions put to them.

For interviews with actors directly involved in the decentralisation process or local politics, more consideration had to be accorded to the operationalization of the research question and the interviewing technique. As regards operationalization, two major aspects are important. First, asking “if decentralisation in the Kyrgyz Republic increases participation in public promotion of local economic development” would have been very confusing for most of the interviewees, and connotations with this question would have differed considerably among them. Secondly, if personal interests play a role, people can become very reluctant to share their opin-

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144 Hopf (2000, 351).

145 Meuser / Nagel (1991, 444).

ions. Thus, careful formulations had to be found that were clear enough to be easily understood and sensitive enough so as not to hurt an interviewee's feelings. In addition, with regard to the interviewing technique, interviews with actors directly involved had to differ considerably from expert interviews. People's knowledge of the decentralisation process and the information they could provide were only of secondary importance. It was even more important to learn about their personal experiences, their perception of the current situation and the way they interpret these experiences and perceptions. To give space for these kinds of information, interviews with actors involved were conducted more openly than the expert interviews.

For qualitative interviews, it is essential to avoid suggestive and closed questions because interviewees are easily influenced and might thus give the answers that they expect the interviewer wants to hear. Accordingly, we encouraged the interviewees to tell us their thoughts on certain topics, formulating our request as openly but also as clearly as possible. In the course of the interview, we adjusted the order of topics from our guidelines according to the subjects that the interviewees had already touched upon during their narrative sequences and in accordance with the direction that the interview took.<sup>146</sup> In this way, we ensured, first, that all the aspects we wanted to learn about were covered and that, second, we got to know the point of view of the actors. This approach allowed us to learn about relevant topics and concerns that we had not considered so far. Such "unexpected" information gained from the relatively open form of interviews was then used to adjust interview guidelines.

Developing and revising interview guidelines was a constant process during the empirical research. In keeping with the principles of Grounded Theory, the research took the shape of a circular process of data generation and analysis. As far as the guidelines are concerned, this meant that they were altered throughout the research as new relevant issues arose.<sup>147</sup>

The guidelines were developed in two main steps: first, the research interest was formulated in the form of questions; second, the guidelines were drafted in a form that is supposed to generate a conversation in which all

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146 Schütze (1983, 285).

147 Cf. Glaser / Strauss (1984).

the topics of interest will be covered. Below, the guidelines are displayed that emerged from the latest revisions.

### **5.1 Interview guidelines: private sector**

- Would you please introduce yourself
- Which kind of business, how many employees?

#### **Current: economic situation**

- Please tell me about the current economic situation in this area and about your business in particular
  - Would you please tell me more about....
  - What do you think are reasons for these problems?
  - What kind of taxes do you have to pay? What are they used for?
  - Please tell me about your ideas to improve this situation

#### **Relationship with administration**

- I would like to know if you can get any support (like meetings with businesspeople, business advice, financial support or anything like that) in this region
  - Does the administration of the aiyl okmotu or raion do anything like that?
  - Who else is involved?
  - Are there any initiatives or interest groups, are you a member?
  - What about small farmers, street vendors or small restaurants (or other areas of the informal sector that are relevant in the respective region) (are they part of these initiatives? do they get any support...?)
- Please tell me about your thoughts on the work that the aiyl okmotu/raion/oblast administration does for the businesspeople
  - Do they treat your concerns as soon as possible?
  - How are decisions on the measures of LED (has to be adjusted to former statement) taken, who is involved?

- What do you think are reasons for these problems?

### **Participation**

- Please tell me about your possibilities to influence the work of the administration

No possibilities to influence                      Tries to influence

Please tell me about the reasons              Please tell me about the way that  
you try to influence their work

## **5.2 Interview guidelines: public sector**

- Please introduce yourself: Position in administration, area of work

### **LED**

- Please tell me about the economy in this area
  - I would like to know about plans to improve this situation
  - I would like to know about the role of your administration in LED
    - How do you promote businesses?
    - What are the competencies/responsibilities of your administration in this field?
  - Please tell me about the development plans that are elaborated by your administration
  - I would like to know about implementation problems of the plans (or other activities)
  - What is being done now in the framework of the “year of social mobilisation”?
  - Why is there not more done by the government?

### **Participation**

- I would like to know about the involvement of the population in this process
  - Please tell me about the way in which the population can influence decisions
  - According to you, who is participating in these decisions

- What about condominium associations/NGO/businesspeople?
- Please tell me about the co-operation with the keneshi
- How often are their meetings with the kenesh?
- Are there any other meetings with individual kenesh members on particular concerns?
- What are the functions of your kenesh?
- I would like to know about the way that the kurultai in this raion/aiyl okmotu work
  - Can everybody take part in them or only elected representatives?
  - How are these representatives elected?
  - What do you think are the reasons that participation is so low/so high...
  - Imagine, people took part (more) in these decisions (on LED), how would that influence your work

### **Current administrative structure**

- Please tell me your thoughts on the decentralisation process/administrative reforms in this country
  - Please tell me about the changes this meant to your work
  - I have heard that the co-ordination of work between the different levels is not always easy, what are your experiences in that concern?
  - I would like to know what you think are the reasons for these problems
  - How often do you meet with the akim/head of AO/governor (depending on who we talk to)?
  - On whose initiative do these meetings take place
  - What are the criteria for top-down distribution of funds?
  - Are there any problems concerning finance of local activities?
  - What kind of taxes can be raised locally?
  - Are there any problems with the taxes?

- For kenesh-members: Can you be in more than one kenesh at a time, for example at aiyl and raion level
  - What exactly does your kenesh do, what are its functions?
  - How often do you meet with the head of administration, only formal meetings or also individual meetings?
  - Do you get any remuneration for your work in the kenesh?

### **Elections:**

- When do the elections for the keneshi and the aiyl okmotu/city heads take place?

## **5.3 Interview guidelines: civil society**

- Can you please introduce yourself

### **Economic opportunities and needs**

- Please tell me about the current economic situation in this area and about the needs of the population
  - Would you please tell me more about...
  - What do you think are reasons for these problems?
  - Please tell me about your ideas to improve this situation

### **Relationship with administration**

- I would like to know if there are any initiatives to solve these problems in this region?
  - Does the administration of the aiyl okmotu or raion do anything like that?
  - Who else is involved?
- Please tell me about your thoughts on the work of the aiyl okmotu/raion/oblast administration
  - Do they take your concerns seriously?
  - What do you think are reasons for these problems?
  - What do you think about their local economic development program?

- How do you think that things could be done in a better way?
- Please tell me why this is not done by the administration

### **Participation**

- Please tell me about your possibilities to influence the work of the administration

No possibilities to influence

Tries to influence

Please tell me about the reasons

Please tell me about the way that you try to influence their work

## **5.4 Interview guidelines: experts**

- Please introduce yourself
- How do you see the ongoing decentralisation process in Kyrgyzstan?
- What are the problems?
  - Corruption?
  - Local elites, dominant ethnic groups?
  - Unregulated structures between the different levels?
  - Lack of local finance?
- Would you please tell us about the promotion of local development in this country?
  - What kind of initiatives?
  - Who has the decision power?
  - Who are the winners and losers?
  - Is there participation in LED?
  - Who participates?
  - What role do the local development plans play, who participates in their elaboration?
- What is your general perception of participation in this country?
  - What are the problems?
  - What are the reasons for these problems?

- Are there dominant forces that pose an obstacle to participation, that keep people from participating?
- What interests have had an influence on the design of the decentralisation process (donors, local powers...) and is there sufficient ownership within the Kyrgyz government?



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